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Customer Categorization, Relational Justice and SME Performance in Supermarket

Supply Chains

Ricardo Malagueno de Santana, Senior Lecturer in Accounting, Norwich Business School, University of East Anglia, Norwich, UK. Tel: +44 (0)1603 59 1403, Email: R.Malagueno@uea.ac.uk.

Ismail Gölgeci, Associate Professor of Marketing Strategy, School of Business and Social Sciences, Department of Business Development and Technology, Aarhus University, Herning, Denmark. Tel: +4593521226, Email: i.golgeci@btech.au.dk.

Andrew Fearne, Professor of Value Chain Management, Norwich Business School, University of East Anglia, Norwich, UK. Tel: +44 (0)1603 59 7239, Email: A.Fearne@uea.ac.uk.

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Abstract

Purpose -The purpose of this research is to examine the impact of perceived relational justice on the relationship between key customer categorization and performance of small food and drink producers in supermarket supply chains.

Design/methodology/approach - Survey data is derived from a sample of (small-scale) suppliers of local and regional food to a large British supermarket. Partial least squares regression analysis was used to test a conceptual framework, which positions relational justice as a mediator in the relationship between key customer categorization and supplier performance, moderated by the length of the relationship.

Findings - Findings reveal that small suppliers who perceive their treatment by their key customers as fair tend to achieve higher business performance, which supports the hypothesized mediating role of relational justice on supplier performance. However, this research found no evidence to support the hypothesis that this role is moderated by the length of the relationship between the supplier and the buyer.

Originality/value - This paper makes a novel empirical contribution, focusing on performance outcomes for small-scale suppliers in a highly competitive environment (fast-moving consumer goods) with customers (supermarkets) who have significant market power. Accordingly, the paper shows that the way supermarket buyers treat their suppliers matters more for the performance of their suppliers than the very fact that they are key customers.

Keywords: Supply-chain management, Customer relationship management, Supermarkets, UK, Company Performance, Food Industry

1. Introduction

Many firms strive to manage their buyer-supplier relationships to achieve their strategic goals (McGinnis & McCarty, 1998; Millman & Wilson, 1999). Such relationships often require focused and deeply-involved management of the interactions with a select set of key partners. The rationalization and integration of a firm's customer and supply base increases their dependence on fewer, larger supply chain (SC) partners of strategic value (McGinnis & McCarty, 1998; Zupancic, 2008). The health and strength of key customer relationships are, therefore, widely viewed as having a critical impact on firm performance and, ultimately, survival (Zupancic, 2008), particularly for small businesses who have a high level of dependency on a small number of (larger) buyers (Bocconcelli, Murmura, & Pagano, 2017). However, such customers cannot always be relied upon as saviors of small businesses and relationships between small suppliers and large buyers can be complicated (Bocconcelli et al., 2017). Large customers' treatment of smaller suppliers can play an instrumental role in these suppliers' businesses (Duffy, Fearne, & Hornibrook, 2003).

Buyer-supplier relationships and the dynamics thereof has received widespread attention in supply chain management (e.g., Autry & Golicic, 2010; Bendoly, Donohue, & Schultz, 2006; Rinehart et al., 2004). Much of this research has focused on the pivotal role of trust (Emanuela, 2012; Terpend & Ashenbaum, 2012) and the consequences of power (e.g., Brito & Miguel, 2017; Hingley, 2005; Kumar, 2005; Kähkönen, 2014). In an attempt to understand better the antecedents to trust and the behavioral implications of power asymmetry, scholars have begun to explore the impact that perceptions of relational justice might have on the behavior of buyers and suppliers, aimed at strengthening these relationships (Griffith, Harvey, & Lusch, 2006; Liu et al., 2012; Schwepker Jr, 2016) or accelerating their dissolution (Gedeon, Fearne, & Poole, 2009). However, the impact that suppliers' perceptions of relational justice might have on the allocation of relational resources and supplier performance has

received little attention to date. Such research is of significance not only because relational justice is likely to play a central role in buyer-supplier relationships but also because it might influence the way key customer categorization is translated into increased performance. Moreover, it cannot be assumed that large buyers will treat smaller suppliers fairly, given the existence of market power (Gölgeci, Murphy, & Johnston, 2018). Consequently, whilst the mere presence of key customers does not guarantee success for small suppliers the nature of relationships between key customers and suppliers can have an instrumental influence on suppliers' performance outcomes. A more specific understanding of the effect of relational justice on asymmetrical buyer-supplier relationships is, therefore, needed to advance the literature on SC governance (Kano, 2018; Wathne & Heide, 2004).

Drawing on social exchange theory and justice in buyer-supplier relationships, the purpose of this research is to examine the role of perceived relational justice in the relationship between key customer categorization and performance of small producers in supermarket supply chains. Specifically, the research focuses on the performance outcomes for small-scale suppliers in a highly competitive environment (fast-moving consumer goods) with key customers (supermarkets) who have significant market power. In so doing, this research pays particular attention to the potential mediating role of relational justice and the moderating role of relationship length. This view is anchored in the notion that the behavior of key customers is instrumental to the resource allocation of their suppliers, which has a material impact on their performance. Small food suppliers who perceive that their (key) customers treat them fairly may allocate more resources to support their business with key customers, resulting in increased commitment and improved performance outcomes.

This study focuses on a large British supermarket and its suppliers of local and regional food, the majority of which are small businesses, to provide an account of how relational justice can explain the means by which the influence of key customer categorization on supplier

performance are conveyed. The empirical context is highly relevant, given the increasing scrutiny of supermarket buyer behavior and its impact on suppliers (Duffy et al., 2013; Fearné, Duffy, & Hornibrook, 2005; Hingley, 2005).

This article contributes to research on supply chain management (SCM) and buyer-supplier relationships. First, it introduces relational justice as a critical link between relationship management and firm performance. This extends the conceptual positioning of relational justice beyond that of an endogenous antecedent to relational behaviors (e.g., Duffy et al., 2013; Liu et al., 2012; Schwepker Jr, 2016) or an outcome (e.g., Patterson, Cowley, & Prasongsukarn, 2006) within the context of buyer-supplier relationships. Instead, it shows that justice can be used as a mechanism for conveying the impact of (key) customer behavior on suppliers' performance. Second, it tests the extent to which relationship length moderates the link between key customer categorization and perceived relational justice. Accordingly, this study advances the extant research on the relational view of retail supply chains as well as the nascent research on justice within an inter-organizational context (Luo, 2007).

2. Theoretical background and hypotheses

2.1 Key customers in supermarket supply chains

For small and medium enterprises (SMEs) serving large buyers (Johnsen & Ford, 2006; Munksgaard, Johnsen, & Patterson, 2015), a small number of customers can have a significant impact on the supplier's business (Bocconcelli et al., 2017; Donnelly et al., 2013). The management and utilization of relationships with these customers are, therefore, core competences for SMEs (Ojasalo, 2001).

In buyer-supplier relationships, key customers are those customers to whom the supplier's offerings create most value vis-à-vis competing suppliers (Tikkanen, Kujala, & Artto, 2007). These customers can play a pivotal role in the management and development of the supplier, providing necessary cash flow, contributing a large proportion of sales revenue,

and offering confidence for making long-term investments. As a result, they are usually given distinct consideration within suppliers' marketing strategy and resource allocation (Millman & Wilson, 1999).

Suppliers with large customer portfolios may find it challenging to develop distinct strategies for all customers or tailor their offering to their varying needs. Accordingly, many suppliers categorize their customers according to their strategic importance and develop relationship management practices (e.g. analyzing special needs, customizing value-adding solutions, analyzing competencies necessary to realize and deliver the solutions) tailored towards key customers to maintain and develop their relationships (Ojasalo, 2001; Zupanic, 2008).

Despite the importance of key customers, managing relationships with such customers can be extremely complex, particularly for small suppliers (Bocconcelli et al., 2017). Those small suppliers are constrained by limited resources yet often face stringent and unpredictable demands from larger buyers who have been known to exploit their market power in their treatment of much smaller and more vulnerable SC partners (Kumar, Scheer, & Steenkamp, 1995). As a result, suppliers can find themselves over-stretched and exposed, as they seek to satisfy their key customers for little or no marginal return on their investments and efforts (Bocconcelli et al., 2017).

Given the complexities ingrained in supplier relationships with key customers, their influence on performance outcomes is not likely to be straightforward or universal (Corsten & Kumar, 2005). Moreover, the relationships between large buyers and small suppliers are often characterized by perceptions of inequity on the part of the supplier (Corsten & Kumar, 2005). A key customer's lack of concern for the welfare of smaller suppliers can lead to contentious buyer behaviors and perilous performance outcomes for smaller suppliers (Pruitt & Carnevale, 1993). Therefore, the perceived justice in buyer-supplier relationships can play an essential

role in the linkage between the management of key customer accounts and supplier performance.

2.2 Social exchange theory and justice in buyer-supplier relationships

This research draws on social exchange theory to understand the concept of relational justice and examine its role in key customer categorization – firm performance relationship. The core premise of social exchange theory is that it treats socio-economic life as involving a series of sequential interactions between two or more parties (Cropanzano et al., 2017). Resources are exchanged through a process of reciprocity, whereby one party tends to repay the good (or sometimes bad) deeds of another party (Cropanzano et al., 2017; Masterson et al., 2000). Accordingly, justice, reciprocity, power and the abuse thereof, have been among the core concepts of social exchange theory (Griffith et al., 2006; Reimann & Ketchen Jr, 2017; Tepper & Taylor, 2003). Given its important role in explaining exchange behaviors and their consequences, social exchange theory has increasingly been applied in SCM literature (e.g., Griffith et al., 2006; Karatzas, Johnson, & Bastl, 2016; Oliveira & Handfield, 2017; Reimann & Ketchen Jr, 2017).

Social exchange theory assumes that social exchange starts when a socioeconomic actor (e.g. a firm) treats a target actor in a positive or negative fashion. Positive initiatives such as justice and support often lead to trust, whereas negative initiatives such as power abuse and bullying lead to conflict (Cropanzano et al., 2017). The argument that power use may damage the relationship between firms is, therefore, frequently based on social exchange theory (Reimann & Ketchen Jr, 2017). Consequently, in the SC context where interfirm interactions are manifested both in social and economic realms (Kano, 2018), justice and related positive exchange behaviors are important for relevant performance outcomes.

Justice is a pivotal concept for the functioning, maintenance, and well-being of society in general (Colquitt et al., 2001) and smooth and successful exchange between parties in

particular (Karatzas et al., 2016). The theory of organizational justice has been used extensively in the organizational behavior literature, where the traditional focus has been on the role of fairness in the workplace. The assumption is that employees' perceptions of fairness will have an impact on their behavior and therefore on organizational outcomes and performance (Colquitt et al., 2001; Konovsky, 2000; Masterson et al., 2000; Thibaut & Walker, 1975). In recent years, the empirical context has been extended to buyer-supplier relationships, in which relational justice is seen as a critical enabler for the effective governance and co-ordination of buyer-supplier relationships (Griffith et al., 2006; Luo, 2007; Patterson et al., 2006; Tsanos & Zografos, 2016) and the development of supplier commitment (Duffy et al., 2013).

Buyer-supplier relationships are established and managed on the fundamental premise of reciprocity (Dwyer, Schurr, & Oh, 1987; Frazier, 1983). This notion suggests that each party in the relationship expects to accrue value out of the relationship, undertake responsibility in this pursuit, and do so in a more or less fair fashion. Power dynamics in buyer-supplier relationships can shape how fair and equitable relational rents are distributed and SC partners are treated (Gölgeci et al., 2018; Kumar et al., 1995). However, relational justice is essential for the health and longevity of the relationships and social exchange in those relationships that each party relies on to create and capture value (Duffy et al., 2013; Griffith et al., 2006; Liu et al., 2012; Yi & Gong, 2008). As such, it provides the facilitative ground upon which buyer-supplier relationships are established, managed and utilized for mutual benefit.

The concept of relational justice is based on the work of Greenberg (1994) and Colquitt et al. (2001) and is advanced by Griffith et al. (2006) relying on insights from social exchange theory. They identify four distinct components: the fairness of outcome distributions (known as Distributive Justice), the fairness of the processes that led to such outcomes (known as Procedural Justice), the fairness of the interactions between individuals (known as

Interpersonal Justice), and the fairness in the exposure of evidence or reasoning for decisions taken (known as Informational Justice).

Distributive justice refers to how equitable the firm perceives the distribution of relational rents relative to that of inputs (Griffith et al., 2006). It is about the distribution of benefits and harms, rewards and costs, and other things that affect the well-being of parties involved in the socio-economic exchange (Luo, 2007). When the benefits are deemed fair, exchange partners view the relationship as beneficial and reciprocate via additional inputs (Griffith et al., 2006). Conversely, suppliers who feel they are being mistreated regarding the actual outcome or input/output ratio may attempt to redress the balance by decreasing outputs, altering outcomes or withdrawing from the relationship.

Procedural justice refers to the extent to which a firm perceives the development and execution of relationship policies to be fair and equitable (Griffith et al., 2006). This is important in collaborative and strategic SC partnerships, as the actions of one party influence those of the other. As such, there is an increasing need for joint involvement in setting goals, long-term planning, and jointly managing expectations and responsibility (Mohr & Spekman, 1994; Wiengarten et al., 2010) to help ensure mutually satisfying solutions for every contingency (Cambra-Fierro & Polo-Redondo, 2008).

Interpersonal justice is conceptualized as the degree to which individuals are treated with politeness, dignity, courtesy, and respect by those involved in executing procedures or determining outcomes (Colquitt et al., 2001). This is an essential component of fairness as interpersonal treatment received during the enactment of decision procedures impacts upon an individual's reactions to decision outcomes (Bies & Moag, 1986). This aspect of justice is particularly relevant to the management of buyer-supplier relationships, as relationships incorporate many social elements that may affect attitudinal and behavioral responses (Bendoly et al., 2006; Cousins & Menguc, 2006; Tsanos & Zografos, 2016). Especially, where retail

buyers are in a position of power, some buyers use power well, while others behave ‘outrageously’ (Duffy et al., 2003; Ramsay & Wagner, 2009).

Informational justice also impacts upon reactions to decisions and procedures (Greenberg, 1994) and is concerned with perceptions of explanation adequacy (Konovsky, 2000). It is, therefore, conceptualized as providing explanations or accounts for decisions made, with decisions or procedures deemed fair if the basis for the decision can be explained and justified candidly and truthfully (Bies & Moag, 1986; Colquitt et al., 2001). In the context of buyer-supplier relationships, informational justice would be seen to exist if the more dominant partner can provide a coherent rationale for its channel decisions and policies, as decisions are more likely to be viewed as fair if the logic behind them is revealed (Duffy et al., 2003; Kumar, 1996).

Though justice may be maintained more naturally when SC partners are equally interdependent and have little or no power asymmetry (Gölgeci et al., 2018), it is still important even when dependence and power are asymmetrically distributed across SC partners. When a small supplier perceives their treatment by their more powerful trading partner as unfair, they are less likely to allocate resources to the development of the relationship beyond the level of transactional exchange. In contrast, a small supplier who perceives their treatment by their more powerful buyer to be fair is more likely to see the potential for longer-term development of the relationship and allocate resources accordingly. This allocation of resources could be manifested in a variety of ways – greater attention to transactional compliance, the development of new products or promotional events that are exclusive to the buyer, investment in customer-specific market research – which in turn is likely to have a positive impact on the supplier’s performance.

To date, research on relational justice remains limited, with most studies focusing only on the consequences of a limited number of justice components (Brown, Cobb, & Lusch, 2006).

Moreover, few studies have focused on the relationship between relational justice and behavioral or performance-based outcomes and fewer still have focused explicitly on the role of relational justice in the presence of power and dependence asymmetry.

2.3 Conceptual framework and hypotheses

The conceptual framework for this study is presented in figure 1. It positions relational justice as a mediating factor in the relationship between the suppliers' key customer categorization and their performance. Given the limited resources available for relationship development and management, specifically amongst SMEs, it is argued that the categorization and fit of a supplier's key customer(s) are likely to have a significant impact on their relationship-specific performance. Put simply; a supplier is likely to invest more resources in a relationship with a customer that is categorized as 'key' than one that is not. This study hypothesizes that supplier performance will be higher for those suppliers whose relational treatment by a key customer is perceived as fair – the mediating role of relational justice.

[Insert Figure 1 about here]

Firms often categorize their customers according to their market share, sales revenue, sales growth, and strategic importance for future investments. Nonetheless, not all firms have the same strategic priorities, and key customer categorization is likely to vary between suppliers in a retail distribution channel. From a purely economic perspective, a key customer is one who provides a significant share of a supplier's revenue, the loss of which might be hard to replace (Ojasalo, 2001). However, a more strategic perspective on the firm's key accounts might give greater consideration to the opportunities for future investment and long-term business development (McGinnis & McCarty, 1998; Zupancic, 2008). Some suppliers might attach greater importance to the reputational benefits associated with customers who boost their credibility and allow them to tout their competence (Hada et al., 2013). Others might cherish customers who have a particular interest in innovation, providing distinct opportunities and

incentives to differentiate themselves from their competitors (Capaldo, 2007; Soosay, Hyland, & Ferrer, 2008).

The core premise of social exchange theory suggests that the quality perceptions of exchanges between parties are sometimes influenced by the nature of the relationship and its importance to the exchange partners (Cropanzano et al., 2017). In a similar vein, previous literature has acknowledged that the outcomes and rewards, whether expected or obtained, from a relationship, are significant antecedents to perceptions of justice and fairness (Alghababsheh, Gallear, & Rahman, 2018; Duffy et al., 2013). In this fashion, the categorization of a customer as ‘key’ implies suppliers recognize that those customers could bring immediate or long-term benefits for their organization. Ex-ante, suppliers will be inclined to anticipate balanced input/output ratios in relationships with those partners and allocate relationship-specific resources accordingly. This study argues that the categorization of a customer as ‘key’ is likely to influence their perceptions of relational justice, regardless of the actual contribution that a particular customer makes to the supplier’s business.

H1: *A supplier’s key customer categorization is positively associated with its perception of relational justice.*

Each party in a buyer-supplier relationship is expected to acquire social and economic value in the form of relational rents as a result of social exchange among each other (Dwyer et al., 1987; Frazier, 1983). Though each party naturally seeks to maximize its own relational rents in most cases, it is imperative that justice is established and maintained in the relationship to foster trust (Dwyer et al., 1987; Searle et al., 2011) and relationship quality (Kumar et al., 1995). Justice may also be a bedrock for a win-win approach to managing relationships and superior value creation for the whole supply chain (Brito & Miguel, 2017) rather than sub-optimal gains for each party. The perception of justice within a supply chain may give SC partners confidence in partner firms and their ability and willingness to co-operate with them

on fair grounds (Luo, 2007). Buyer-supplier relationships where buyers and suppliers treat each other fairly and respectfully, maintain channels of bilateral communication, provide a rationale for decisions and the possibility for appeals, and are consistent with SC policies across SC partners are more conducive to positive performance outcomes (Kumar et al., 1995). A set of positive initiatives in the form of high relational justice is likely to engender positive reciprocation and a virtuous cycle of constructive behaviors between the exchange parties (Cropanzano et al., 2017) that can ultimately translate into improved performance outcomes. This line of argument concurs with studies employing social exchange theory that emphasize positive exchange behaviors and ensuing commitment and trust as precedents to performance (Karatzas et al., 2016).

That said, though justice is relevant for all types of relationships and exchange behaviors, it is particularly imperative for asymmetrical relationships. As justice is more challenging to maintain within asymmetrical relationships (Gölgeci et al., 2018), its value and importance for weaker players increases (Brito & Miguel, 2017). Smaller suppliers that are vulnerable to the abuse of market power by larger customers prioritize having fair relationships to hedge against the perils of potential mistreatment (Kumar et al., 1995). When a more powerful SC partner bolsters the perception of equity through relational justice, both partners can become more incentivized for further exchange due to increased confidence in impartial gain sharing, proper treatment, and dignity (Liu et al., 2012; Luo, 2007). Furthermore, fair procedures between buyers and supplier can enhance each party's commitment to and cooperation with each other (Kumar et al., 1995). Likewise, providing adequate information and justification as to why certain decisions concerning the relational exchange between the buyer and supplier are made can enhance receptivity to such decisions that can improve value creation and relational performance (Ellis, Reus, & Lamont, 2009).

As justice underlies trust (Dwyer et al., 1987; Searle et al., 2011) and relationship quality (Kumar et al., 1995), which are cornerstones of effective and high performing buyer-supplier relationships, it can also enhance overall firm performance. In retail supply chains, justice was found to be an essential ingredient for employee and firm performance (Alghababsheh et al., 2018; Maxham III, Netemeyer, & Lichtenstein, 2008; Narasimhan, Narayanan, & Srinivasan, 2013). Therefore, although evidence on the direct link between relational justice and supplier performance is limited, this study argues, based on the existing evidence that supports the possibility of such a linkage, that a supplier's perception of relational justice with its key customer(s) is positively linked to its (relationship specific) performance.

H2: *A supplier's perception of relational justice with a key customer is positively associated with its performance.*

No buyer-supplier relationship can take place without the manifestation of behaviors by the interacting parties (Frazier, 1983). Initiating and response behaviors by the parties then lead to positive or negative perceptions that are instrumental in the relational and economic outcomes of exchange processes (Cropanzano et al., 2017; Gölgeci et al., 2018). Trust can be seen as SC members' positive perceptions of each other and is a fundamental necessity in asymmetrical buyer-supplier relationships to mitigate the potential perils of power imbalance and develop collective interests where the power of a larger key customer is not viewed as a constraint (Munksgaard et al., 2015). Although key customers can be viewed as strategically important for smaller suppliers (Zupancic, 2008), their impact on firm performance may not be manifested its own right. In other words, large customers would not improve a supplier's performance just because they are important, but because they actively make a positive contribution to the supplier's business. The nature of the relationship between such customers and suppliers is an important determinant of the way such customers influence their supplier's

performance. Accordingly, relational justice can function as a mediating mechanism between the categorization of customers and the supplier's performance.

Specifically, Brown et al. (2006) state that perceptions of relational justice can play an essential role in relationship commitment that is found to improve performance (Tsanos & Zografos, 2016). Likewise, the evidence on the importance of distributive and procedural justice for collaborative and strategic buyer-supplier relationships indicates that justice can be a fundamental mechanism to convey the influence of key customer categorization on performance outcomes (Griffith et al., 2006; Lind & Tyler, 1988). In this vein, social aspects of relational justice manifested by how exchange parties in supply chains treat each other and how information is conveyed across interacting parties signals the critical role that perceptions play in the performance outcomes of key customer categorization (Liu et al., 2012).

Justice is a crucial factor for the way relational rents are distributed (Dwyer et al., 1987; Frazier, 1983) and the way suppliers feel about the relationship (Liu et al., 2012). Therefore, key customers who offer reasonable contractual terms, give suppliers a 'voice' in the relationship, empower suppliers and treated them decently, and inform suppliers about the way relationship is governed are likely to have a more positive influence on suppliers' performance than key customers who do not. Such equitable behaviors by key customers can also enable suppliers to be less concerned about the relationship dynamics and focus on other performance driving activities, such as order fulfillment and new product innovation (Gölgeci et al., 2018).

H3: *A supplier's perception of relational justice with key customers mediates the relationship between its key customer categorization and its performance.*

Buyer-supplier relationships take time to be established and evolve over time (Autry & Golicic, 2010). Thus, they are not episodic but continuous. Similarly, the categorization of customers by suppliers is a dynamic process and the status of the latter, in the eyes of a supplier,

is subject to change, particularly in the early stages of a relationship, before the establishment of relational norms.

The length of a relationship, the frequency of interaction, and the intensity of the interaction are three primary elements of strong relationships (Capaldo, 2007). The more time buyers and suppliers have to work together the more able they are to establish relational norms and build trust (Vanneste, Puranam, & Kretschmer, 2014), align expectations and smooth and innovative exchange processes (Soosay et al., 2008; Wiengarten et al., 2010). It has even been argued that buyer-supplier interactions can only be viewed as ‘relationships’ if they stand the test of time (Capaldo, 2007; Dwyer et al., 1987).

The importance of the relationship with a ‘key’ customer is likely to increase over time for small-scale suppliers. The mere duration of a relationship can strengthen a supplier’s perception of a customer as ‘key,’ as a sustained source of revenue maintains cash flow and improves a supplier’s evaluation of the customer. Moreover, as justice is especially contingent upon repeated manifestations of fairness (Colquitt et al., 2001; Duffy et al., 2013; Liu et al., 2012), it takes time for suppliers to accurately assess whether their (key) customers are fair or not. It would be difficult to rationalize the investment of resources on the part of suppliers in relationships with customers who were perceived to be mistreating them. Enduring relationships are therefore likely to result in and from the perceived existence of relational justice.

H4: *The length of a trading relationship positively moderates the relationship between a supplier’s key customer categorization and its perception of relational justice.*

3. Research method

3.1 Sample selection and data collection

The data was collected over a twelve-month period, from October 2016 to October 2017, through an online survey of small producers. The sampling frame was the population of food and drink producers who supply a large British supermarket with products for its local range.

Consumer demand for locally sourced food has grown significantly and is of strategic importance to British supermarkets. However, the sourcing and ranging of local food is both complex and challenging. The large British supermarket which is the object of this study has a dedicated local sourcing team comprising a director, a technical manager, a range manager and a team of buyers responsible for sourcing local products across the UK and managing relationships externally, with suppliers, and internally with the national buyers responsible for the specific product categories in which local products are ranged. At the time of the survey, the participant supermarket's local range comprised 1,820 products, supplied by 571 producers, of which 337 (59%) had a turnover of less than £6.5m. An invitation to participate in the survey was sent to the local range suppliers of the large supermarket via email. The person responsible for managing the relationship with the focal supermarket was invited to respond to a questionnaire, as part of an action research project designed to deliver shopper insight to SMEs, in support of business planning and marketing decision-making.

The questionnaire was developed after interviews with different managers of the focal supermarket's local food range. Academics, researchers, and managers of food and drink producers pre-tested the questionnaire providing comments. Received feedback was used to adjust the terminology adopted and the order of the questions, to make it more suitable for the particular context. A total of 123 questionnaires were completed, of which 12 were discarded as duplicates. Thus, 111 responses (a response rate of 20%) were obtained for hypothesis

testing. The characteristics of the companies are summarized in Table 1. Comparison of these summary statistics with those for non-respondents revealed no significant differences.

[Insert Table 1 about here]

3.2 Variable measurement

The questionnaire used existing instruments where possible to ensure content validity. Constructs were measured using established multiple-item scales, adapted where necessary for the specific context of this study. The measurement of the construct was conceptualized and defined in line with the procedure laid out by Churchill (1979). The key constructs and items are reported in Table 1 and Table 2.

Key customer categorization. In this study, key customer categorization is a composite variable that determines whether or not the respondent classifies the focal supermarket as a key customer, according to their preferred criteria. First, respondents choose one statement from a list of eight that best describes what they consider to be a 'key customer' for their business. Second, they choose one statement from a similar list that best describes the contribution that the focal supermarket makes to their business. The two questions and respective items appear in different sections of the questionnaire separated by other questions, so respondents could not easily associate the two questions without having to return to previously completed questions. This was purposely done to avoid response bias. The key customer categorization variable was operationalized as a fit variable that draws from the two questions described above. If respondents choose similar items to describe a key customer and the focal supermarket's contribution to their business, the variable equals 1 representing a fit. Otherwise, the variable equals 0. A fit was found in 48 instances. Table 2 shows the eight items used to compute the variable and the percentage of fit responses for each item.

Relational justice. Relational justice was measured using the four dimensions of organizational justice, adapted from the established items developed by Colquitt (2001) to an

inter-organizational context, with clear references to the focal supermarket as the customer. Distributive justice was measured using three items designed to capture the fairness of the outcomes received and the division of benefits and burdens in the relationship. Procedural justice was measured using three items capturing the structural elements of the decision-making process (e.g. ability to voice one's views and arguments during a procedure) and decision control (e.g. ability to influence the actual outcome). Informational justice was operationalized using three items to capture the willingness and extent to which the customer provides valid and truthful explanations for decisions and enactment of procedures. Interpersonal justice was measured using six items that capture how a supplier is treated during the enactment of procedures concerning issues of respect, dignity, politeness, and courtesy. All variables were measured using a seven-point scale ranging from "completely disagree" to "completely agree" with particular reference to the focal supermarket as the supplier's customer. The focal supermarket' name was anonymized in Table 1 when reporting the measurement items for the sake of anonymity.

Supplier's performance (Performance). In the context of the questionnaire that clearly referred to the focal supermarket, supplier's performance was captured by four self-reported measures of satisfaction with performance relative to the competition. These measures were adapted from previous studies that have examined the performance of small businesses (Gibson & Birkinshaw, 2004; Wolff & Pett, 2000). Three of these are measures related to satisfaction with growth, profitability and overall performance. A fourth item relates to the perceived level of customer satisfaction.

Length of a trading relationship. The length of the relationship was measured using a single question that captures the number of years the company has been supplying the focal supermarket.

Control variables. Size of sales team, number of customers, and ownership of the firm were included as control variables. The size of a supplier's sales team can affect the buyer-supplier relationship. Larger sales team can more easily seek out closer connections with customers to sustain the business (Guesalaga, 2014). Therefore, the size of the sales team, measured by the number of employees involved in sales activities, is included as a control variable. The number of customers is a proxy for the degree of suppliers' dependency. Respondents were asked to report the number of customers (e.g. businesses) their firms sell products to. The type of ownership focused on the identification of family or non-family firms. Previous literature has long recognized that leaders of family firms have a different approach to customer relations when compared to leaders of non-family firms (Miller, Breton-Miller, & Scholnick, 2008). Respondents were asked to indicate whether or not their firm was a family firm. It was operationalized as a dummy variable coded 1 for family firms and 0 otherwise.¹

[Insert Table 2 about here]

3.3 Method validity

Several remedies were adopted to mitigate potential common method bias. Ad hoc and post hoc measures were employed. First, the questionnaire was developed with different scale formats and scale anchors in such a way that the potential dependence among variables was not evident to respondents. Subsequently, two post hoc techniques were conducted to test for common method variance. Harman's one-factor test based on the items used in the research model was loaded into a common factor. The unrotated factor solution resulted in 6 factors with eigenvalues > 1 (first factor explaining up to 32% of the total variance). Second, marker variable partial correlation analysis (Lindell and Whitney, 2001) was performed. Tenure of the respondents, which is a variable theoretically unrelated to the substantive variables in this study, was selected as a marker variable. Results of the partial correlation adjustment procedure

¹ Control variables were not included in Figure 1.

showed that the significant correlations in the zero-order model remained significant after the partial correlation adjustments. The results of the post hoc techniques suggest that common method variance is not a serious threat in this study.

3.4 Statistical analysis

Partial least squares (PLS) path modeling was used for statistical data analysis.² PLS is a component-based modeling approach that aims to maximize variance explained and minimize error. It can assess measures (measurement model) and theory (structural model) simultaneously. PLS approach to structural equation modeling is often utilized and appropriate for testing and validating explorative models with relatively small samples (Hair Jr et al., 2016) which is the case of the current study. The next section presents the results of the measurement and structural models.

4. Results

4.1 Measurement Model

The estimation and evaluation of the reliability and validity of the measurement model are shown in Tables 1 and 3. Table 1 presents the results for descriptive statistics, item loadings, composite reliability (CR) and average variance extracted (AVE) for the constructs in this research. Individual item reliability was examined by factor loading. All items, but one, present factor loadings above the recommended threshold values of 0.70. All indicators were kept in the structural model as CR for all latent variables was above the suggested threshold of 0.7, which indicates adequate composite reliability (Nunnally & Bernstein, 1994).

Convergent validity was examined by variance extracted (AVE). All reflective constructs present AVE measure above 0.5, indicating adequate convergent validity (Bagozzi & Yi, 2012). Discriminant validity was examined by the square root of the AVE, correlations coefficients and cross-loadings (Henseler, Ringle, & Sarstedt, 2015). First, Table 3 shows the

² SmartPLS 3.2.7 software was used in this study.

square root of AVE of each construct (diagonal) is higher than the correlation with other latent constructs (off-diagonal). However, Pearson correlations among the four dimensions of relational justice indicated some highly significant correlations. Similarly, cross-loadings between the dimensions of relational justice did not provide a clear discriminant validity between these latent variables. These results suggest that relational justice could be modeled as a higher order latent variable (Liao et al. 2007). Indeed, modeling relational justice as a second-order construct of the justice items showed that factor loadings for the higher order overall relational justice variable and the lower order justice dimensions were high and statistically significant. Distributive justice, procedural justice, informational justice, and interpersonal justice had factor loadings of .62, .96, .96, and .94, respectively. Thus, in subsequent analyses, relational justice was modeled as a second order reflective construct.

4.2 Structural model

A PLS structural model was used for testing the hypothesized relationships between the constructs in the theoretical model. Table 4 provides a summary of results. Table 4 Panel A shows the results for the PLS structural model with path coefficients, t-statistics, and R^2 . Table 4 Panel B shows the indirect and conditional indirect effects and their statistical significance.

H1 predicted a positive relationship between suppliers' key customer categorization and the perception of relational justice. As shown in Table 4 Panel A the PLS structural path coefficient for the relationship between key customer categorization and relational justice is positive and statistically significant ($\beta = 0.177$, $t = 1.907$, $p < .05$). Thus, H1 is supported.

The study also predicted that relational justice is positively associated with the suppliers' performance (H2). The structural path between relational justice and performance is statistically significant ($\beta = 0.275$, $t = 2.387$, $p < .01$). Thus, H2 is supported.

Next, the extent to which relational justice mediates the relationship between key customer categorization and the suppliers' performance was examined. It was found a positive

indirect effect (indirect effect = 0.040). To test the significance of this effect, the empirical study followed Hayes' (2012) procedure to analyze indirect and conditional indirect effects (see Table 4 Panel B). In this procedure, the mediation was tested by estimating the sampling distribution of the conditional indirect effect non-parametrically through bootstrapping. Bootstrap confidence interval above zero provides statistical support for H3.

Finally, the study tested the extent to which the length of a trading relationship between a supplier and a customer positively moderates the relationship between key customer categorization and the perception of relational justice (H4). As shown in Table 4 (Panel A), the path leading from the interaction term (key customer categorization x length of a trading relationship) to relational justice is not significant ($\beta = 0.049$, $t = 0.565$, $p > .10$). Moderation on the relationship described in H1 as well as the overall conditional indirect effect are not statistically significant to any level of the moderating variable, but zero (as observed in Table 4, Panel B). Thus, H4 is not supported.

[Insert Table 4 about here]

5. Discussion

Buyer-supplier relationships between small-scale suppliers and larger retailers are idiosyncratic in the sense that buyers are concentrated and accrue asymmetric power over most of their partners. In this vein, even though such large retailers are often the key customer of their respective suppliers, the relationship between them can be complicated due to power dynamics and subtleties of exchange behaviors among asymmetrical SC partners. Despite the critical role of such key customers in the survival of smaller suppliers, the relationship between asymmetrical SC partners can turn sour and be detrimental to suppliers' performance if the relationship is not governed fairly. Such a challenge brings forth the role of relational justice as a potential mediating means to translate key customer relationships into supplier performance, and this paper examines whether such a proposition holds.

5.1 Theoretical implications

This study draws on a sample of small-scale suppliers of local and regional food to the focal supermarket and uses partial least squares and process analytical tools (Hayes, 2012) to test research hypotheses. In particular, this research finds that a significant relationship exists between a supplier's categorization of a customer as 'key' and their perceptions of relational justice and that relational justice mediates the relationship between key customer categorization and supplier's performance. However, our results suggest that the length of a trading relationship does not moderate the link between relational justice and the key customer categorizations.

These findings have several implications for research on social exchange theory in supply chains (Griffith et al., 2006; Karatzas et al., 2016; Oliveira & Handfield, 2017; Reimann & Ketchen Jr, 2017) and on buyer-supplier relationships (Brito & Miguel, 2017; Dwyer et al., 1987; Gedeon et al., 2009; Johnsen & Ford, 2006; Lambert & Schwieterman, 2012; Soosay et al., 2008; Tsanos & Zografos, 2016). First, it conceptualizes and incorporates a holistic view of relational justice to account for both structural and social dimensions of relational justice in buyer-supplier relationships. The structural view of justice, which concentrates on the instrumental aspects of buyer-supplier relationships and includes procedural and distributive dimensions, has been the traditional and commonly accepted way of examining justice in buyer-supplier relationships (Griffith et al., 2006; Kumar et al., 1995). However, the social view of justice, which focuses on relational aspects of buyer-supplier interactions and encompasses interpersonal and informational dimensions, offers an instrumental yet overlooked approach to understand justice in buyer-supplier relationships (Liu et al., 2012). As buyer-supplier relationships are, ultimately, run by individuals, accounting for their interpretation and application of their firms' relational strategy can enrich the understanding of relational justice in supply chains.

Second, and more importantly, this study reveals how small-scale suppliers achieve higher performance out of their relationships with key customers by analyzing the role of relational justice. Though SCM research has, thus far, extensively covered the role of power, less attention has been paid to the role of relational justice as a central relational concept related to power. Results of this study suggest that the way larger buyers (fairly or unfairly) treat their suppliers matters more for their supplier's performance than their status as a 'key customer'. This finding adds to the emerging research on justice in buyer-supplier relationships (Brown et al., 2006; Fearne et al., 2005; Griffith et al., 2006; Liu et al., 2012; Schwepker Jr, 2016; Yi & Gong, 2008) and highlights its importance for the success of asymmetrical relationships that may diminish the larger partner's concern for the weaker partner (Gölgeci et al., 2018; Kumar et al., 1995). Accordingly, this research enriches the literature on SCM and buyer-supplier relationships by highlighting relational justice as a vital link between key customer categorization and supplier performance in retail supply chains. This contribution is also relevant to social exchange theory in SCM (Griffith et al., 2006; Reimann & Ketchen Jr, 2017), as it highlights how relational justice can improve supplier performance in asymmetrical buyer-supplier relationships where buyer-supplier relationships are more vulnerable, and interfirm behaviors underlying justice are less compelling to a more powerful partner.

Furthermore, this study examines the potential moderating role of relationship duration in the relationship between suppliers' key customer categorization and their perception of relational justice. The underlying reasoning was that building a consistent perception of relational justice would take time, and thus, could moderate the strength of the linkage between key customer categorization and relational justice. However, the lack of support for this expectation implies that relationship duration is not an important element for suppliers' perception of relational justice and relational justice is nonetheless important for the success of key buyer-supplier relationships regardless of the length of the relationship. This finding

highlights the instinctive, rather than calculated, nature of justice perceptions and underlines the importance of enhancing the social view of relational justice above and beyond its structural view. Likewise, it shows that justice perceptions between buyers and suppliers may not require a long time to be formed in the SC context, and relationship duration does not necessarily shape how key customer categorization leads to relational justice perceptions.

5.2 Managerial implications

This research also has managerial implications. Though most managers view buyer-supplier relationships primarily through an economic lens, one should not forget that any socio-economic exchange occurs within a social context and has behavioral and performance-related implications (Cropanzano et al., 2017). Positive and negative exchanges can have unexpected consequences that ultimately determine the health of a relationship and ensuing performance outcomes. Managing buyer-supplier relationships is, therefore, not a mechanistic but a challenging social task that involves tackling behavioral issues and power dynamics between the buyer and the supplier (Bendoly et al., 2006; Kumar, 2005; Stanley et al., 2015).

Such a challenge can be exacerbated when the relationship is between small-scale suppliers and larger retailers. Findings of this study indicate that larger retailers should work on improving all four components of justice perceptions of their small (local) suppliers to help them improve their performance and, indirectly, SC performance. This means larger retailers should design strategies to enhance necessary elements of relational justice and should empower and encourage buyers and category managers to foster social elements of relational justice. Such inter-organizational strategies can help weaker suppliers feel that their voices are heard, concerns are addressed in the relationships, and their account managers are treated with dignity, courtesy, and respect. This study finds that such perceptions help them perform better in their relationships with key customers, which eventually could be beneficial to the whole relationship and be in the holistic, long-term, interest of the supply chain. Furthermore, the

finding on the role of relationship duration indicates that larger customers can establish commitment from suppliers at an early stage in their relationships, by simply respecting the principles of relational justice in their dealings with suppliers. Such principles can be easily incorporated into personal development plans of retail buyers and their adherence can be easily measured through systematic supplier evaluations. Conversely, the study findings suggest that suppliers form their perceptions of inter-organizational justice relatively quickly, so buyers should pay attention to establishing inter-organizational fairness from the outset, when taking on new suppliers, particularly when those suppliers are small business with limited resources and vulnerable to the abuse of market power.

5.3 Future research directions

Empirical evidence obtained in this study suggests that the mere existence of key customers and trading relationships that endure do not, by themselves, result in stronger supplier performance. Rather, it is the way a supplier perceives their treatment by the key customers that makes the difference. This might be due to the subsequent impact of perceived relational justice on supplier commitment and their allocation of relationship-specific resources. This is particularly important for SMEs, for whom resources are distinctly limited and need to be carefully targeted. Further research should delve more deeply into the way small producers manage their customer portfolios and allocate resources in response to a) the specific needs and/or wants of individuals (buyers and their organizations) and b) the perceived justice in the way they feel treated by these individuals, regardless of the number of years the trading relationship has existed.

Findings suggest that the notion of ‘key customer categorization’ means different things to different people and may well change over time – a key customer today who accounts for a large share of a supplier’s sales, may not be the key customer with whom that same supplier seeks to innovate and develop new products tomorrow. The potential for misalignment is

evident as suppliers look to grow through broader distribution and the generation of scale economies when what the buyer (actually) needs or wants is more innovation and differentiation. This misalignment is all the more likely in the absence of informational and procedural justice but is also less likely if suppliers are unaware of or unsympathetic to the different needs and wants of their customers. Further research should explore the relationship between relationship management, resource allocation and the strategic orientation of small-scale suppliers, for whom (capital) investment in production capacity is often afforded higher strategic priority than the investment of time and effort in the management and development of relationships with key customers.

The duration of trading relationships is often used as a proxy for relationship strength, on the basis that suppliers would switch if their treatments were perceived to be unfair. However, this assumption ignores the fact that for many small-scale suppliers of fast-moving consumer goods the immediate (local/domestic) market is highly concentrated and fiercely competitive, making it very difficult to switch customers within a distinct distribution channel (e.g. supermarkets). The option may exist in new markets (e.g. exports) market segments (e.g. food service) or distribution channels (e.g. wholesale), but their exploitation takes time and strategic orientations are often lacking amongst SMEs. Thus, future research should also explore the dynamics of relationship development, in the presence of power asymmetry, and the lead indicators of perceived relational justice that suppliers look for and buyers should focus on in the early years of relationship development.

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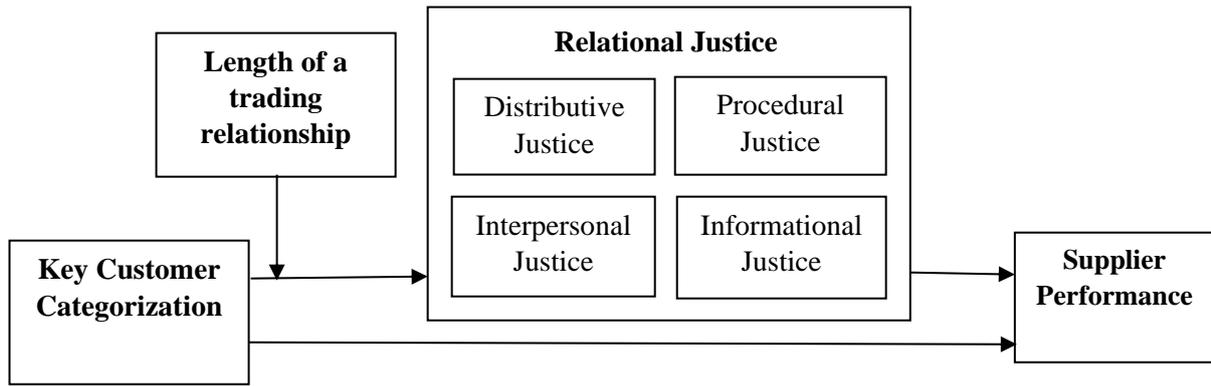


Figure 1. Conceptual framework

Table 1. Descriptive statistics and psychometric properties for constructs

	Item	Mean	SD	Ldng	CR	AVE
	Total turnover (£ million)	3.96	6.39			
	Turnover with the focal supermarket (£ million)	1-2.9				
	Years trading	36.34	50.58			
	Length of a trading relationship (years)	7.79	6.21			
	Size of sales team	4.50	4.49			
	Number of customers	30-49				
	Family firms (78%), Non-family firms (22%)					
Relational justice						
Distributive justice	The rewards we receive from our relationship with [the focal supermarket] are fair given the effort we put into supporting our business with them	5.13	1.18	0.828	0.916	0.785
	The rewards we receive from our relationship with [the focal supermarket] are fair given our overall contribution	5.20	0.98	0.915		
	We are fairly rewarded for meeting [the focal supermarket]'s requirements	5.12	1.01	0.911		
Procedural justice	We are given opportunities to express our views and offer input to decisions that affect our relationship with [the focal supermarket]	5.05	1.27	0.881	0.849	0.654
	We have some influence over the outcome of decisions taken by [the focal supermarket] that affect our business	4.39	1.27	0.744		
	[The focal supermarket] staff are consistent in their dealings with us	5.11	1.33	0.796		
Informational justice	My [the focal supermarket] buyer is open and honest when explaining the reasons behind decision that affect my business	5.57	1.12	0.934	0.964	0.817
	My [the focal supermarket] buyer is always willing to discuss the reasons behind decisions that affect my business	5.50	1.35	0.821		
	My [the focal supermarket] buyer always presents valid reasons for any changes to decisions or procedures that affect my business	5.35	1.21	0.930		
Interpersonal justice	My [the focal supermarket] buyer always treats me politely	6.14	0.93	0.916	0.925	0.804
	My [the focal supermarket] buyer never makes improper remarks or insensitive comments when dealing with me	6.29	0.91	0.817		
	My [the focal supermarket] buyer always treats me with respect	6.09	0.98	0.950		
	My [the focal supermarket] buyer seems to respect the work I do	5.97	1.06	0.942		
	My [the focal supermarket] buyer seems to respect my ideas	5.85	1.06	0.937		
	My [the focal supermarket] buyer seems to think highly of the quality of my work	5.68	1.10	0.855		
Performance						
	We do a good job in keeping our customers satisfied	5.88	0.80	0.619	0.841	0.573
	We are more profitable than our competitors	4.51	1.18	0.703		
	We are growing more rapidly than our competitors	4.50	1.32	0.820		
	Our performance is excellent compared to our competitors	4.58	1.25	0.862		

Note: SD = Standard Deviation; Ldng=Loading; CR = Composite Reliability; AVE = Average Variance Extracted.

Table 2. Key customer categorization: items and % of fit responses

KEY CUSTOMER CATEGORIZATION	% fit responses
Provides us with essential cash flow to sustain the business	4%
Enables us to make efficient use of our production capacity	2%
Gives us the confidence to invest in the long-term development of the business	27%
Has a significant share of the market we serve	4%
Contributes a significant proportion of our sales revenue	31%
Offers the potential for sales growth in the long term	31%
Provides us with above-average profit margins	0%
Offers the potential for increasing our profit margins	0%

Table 3. Correlation matrix and the square root of AVE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Key customer categorization	-								
(2) Distribute justice	0.091	0.886							
(3) Procedural justice	0.177	0.716	0.809						
(4) Informational justice	0.122	0.284	0.637	0.904					
(5) Interpersonal justice	0.122	0.423	0.860	0.785	0.897				
(6) Performance	0.133	0.469	0.293	0.163	0.206	0.756			
(7) Length of a trading relationship	0.051	-0.138	-0.135	-0.082	-0.167	0.145	-		
(8) Size of sales team	0.052	-0.073	-0.140	-0.173	-0.241	0.057	0.076	-	
(9) Number of customers	-0.034	0.129	-0.018	-0.112	-0.072	0.292	0.039	0.287	-
(10) Owership	0.047	-0.225	-0.248	-0.221	-0.234	-0.198	-0.025	0.051	-0.067

Note: Square root of the AVE on the diagonal.

Table 4. Summary of the results**Panel A: PLS structural model results: path coefficients, t-statistics and R².**

Path from:	Path to:		R ²
	Relational justice	Performance	
Key customer categorization	0.177* (1.907)	0.092 (0.743)	0.091
Relational justice		0.275** (2.387)	0.160
Key customer categorization x Length of a trading relationship	0.049 (0.565)		
Length of a trading relationship	-0.142 (1.649)		
Size of sales team	-0.172 (2.182)		
Number of customers	-0.018 (0.181)		
Owership	-0.281** (2.736)		

Panel B: Indirect and conditional effects and bootstrap confidence intervals ^a

Indirect effect	Effect	Boot SE	LL 95% CI to UL 95% CI
Key customer categorization-->Relational justice--> Performance	0.040	0.028	0.001 to 0.115*
Conditional indirect effect (moderated by length of a trading relationship)			
Length of a trading relationship			
-1.00	0.028	0.034	-0.023 to 0.116
0.00	0.040	0.028	0.001 to 0.113*
1.00	0.510	0.039	-0.000 to 0.153

Note: N = 111. ** Significant level 1%, * Significant level 5%, (one-tailed for hypothesised relationships, two-tailed otherwise). ^a Bootstrap sample size = 5,000. SE = standard error; LL = lower limit; CI = confidence interval; UL = upper limit.