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**Title:** Supplier Relationship Development in the Food Industry of Transition Economies: The Role of Independent Facilitators

***Abstract***

One of the critical issues currently facing many multinational food manufacturing and processing firms operating within the transition economies of Central and Eastern Europe is how to establish and develop a sustainable high quality supply base supported by a financially distressed agricultural production sector lacking the necessary relationship specific assets. The reform and privatization process of the previously vertically integrated, centrally planned, agri-food marketing channels has resulted in numerous hold up problems between farmers and processors in the form of extensive payment delays. As a result many farmers faced extreme financial distress. When coupled with the concurrent land reform and farm privatization processes, farmers have had few incentives not to disinvest in the relationship specific assets, such as specific managerial and technical skills and production technology, which multinational food manufacturers require of their suppliers. Consequently, many foreign multinational food manufacturers have been forced to establish very complex and costly production and procurement networks to facilitate the production and delivery of the specific inputs that they require. In this paper we develop a conceptual contract enforcement framework that argues that private enforcement capital is a necessary requirement in the facilitation transactions and enforcement of contracts between multinationals and farmers in transition agricultural where public enforcement mechanisms are weak. However, to achieve this cost effectively, an external facilitator is required in the initial establishment and development of self-enforcing relationship with farmers. Empirical evidence is provided by a case study of a Belgium based production management firm contracted in the malting barley sector to provide the linkage between farmers and multinational firms. In this case the initial private enforcement capital present between the farmer and the contractor is sufficient to enable a fast and effective means for meeting the quality and quantity requirements of the multinational food processor. Further private enforcement capital is created through the formation of producer groups, guarantees of assured payment, and provision of credit, technical assistance, and inputs, thus, widening the self-enforcing range of the agreement and reducing the event of contract breach by farmers. Keywords: Agricultural transition, private enforcement capital, self enforcing relationships, multinational firms, relationship specific assets, alliance facilitators.