American Association of Wine Economists

Tbilisi 2022 Abstract Submission

Title
Quality Performance in a Wine Cooperative: A Quantitative Case Study

I want to submit an abstract for:
Conference Presentation

Corresponding Author
Günter Schamel

E-Mail Corresponding Author
guenter.schamel@unibz.it

Affiliation
Free University of Bozen-Bolzano

Keywords
Cooperative, quality

Research Question
The main goal of this paper is to lay out how a wine cooperative can incentivize its members to deliver high quality grapes.

Methods
The paper analyzes grape delivery data and prices received for growers of a wine cooperative complemented by farm level data and relating them grape quality delivered.

Results
We confirm the hypothesis that the relative farm size has a significant impact on grape quality delivered and an inverse impact on the payment farmers receive for their grapes

Abstract
An array of problems related to the cooperative organization model has been investigated in the scientific literature. They include variants of agent and incentive problems (Borgen, 2004; Hakelius and Hansson, 2016, Valette et al., 2018), moral hazard and adverse selection problems (Orozco, 2013), scale-up problems (Tortia et al., 2013), and adjustment problems (Nilsson, 1997). A growing number of papers has highlighted the strengths and advantages of the cooperative organizational model (Fahlbeck, 2007; Figueredo and Franco, 2018; Valentinov, 2007) explaining their continued existence.
Garrido (2022) discusses low-quality standards, resulting from opportunistic behavior by member growers in wine cooperatives. Schamel (2015) shows negative reputation effects of wines produced by German wine cooperatives. Grashuis and Su (2019) provide a review the empirical literature on farmer cooperatives concentrating on performance measures, ownership and governance structures, financial indicators, member attitudes as well as farm size. They present some evidence that wine cooperatives are not able to produce quality products as well as other organizational forms. However, they report no evidence how farm size impacts product quality performance. In a theoretical paper, Santos-Arteaga and Schamel (2018) provide evidence that cooperative may outperform private firms (IOFs) in terms of social surplus. The main goal of this paper is to lay out how a wine cooperative can incentivize its members to deliver high quality grapes. We describe in detail how the incentive and quality control schemes influences the quality of the grapes delivered and the resulting payments and price premia that the grape growers receive.
Empirically, the present paper takes a novel approach, analyzing grape delivery from member growers of a wine

cooperative in Alto Adige, Northern Italy. This data is complemented by information on the incentive and quality control scheme that the growers are facing and data on the size of their vineyard operation. The data set was obtained through direct collaboration and through qualitative interviews with members of the cooperative and their management (i.e. the winemaker and the agronomist).
Using a detailed data set for all grape deliveries from individual members of a cooperative over the vintages 2016-19 and the existing quality delivery incentives, we are able to explain why growers received a price premium or discount per kg of grapes delivered. The analysis distinguishes between varieties, vintages, and quality levels analyzing absolute and relative price premia. In this respect, we highlight the importance of the continuous evaluation process in the vineyard, the quality grading of the vineyards and the grapes upon delivery and the wine growers' dedication, enabling the cooperative to address the low quality and incentive problems as well as the moral hazard and adverse selection problems mentioned in the literature. Moreover, we provide first evidence on how farm size affects quality performance of a wine cooperative.
The literature provides limited evidence on how member farm size affects cooperative performance measures related to product quality. This paper is a first analysis analyzing wine growing farms. We confirm the hypothesis that the relative size of a winegrowing operation has a significant impact on grape quality delivered and an inverse impact on the payment farmers receive for their grapes. Hence, smaller farms deliver higher quality grapes. This result is observable across varieties and quality levels. Vintage conditions have a moderating effect on these results.

References:
Borgen, S. O. (2004). Rethinking incentive problems in cooperative organizations. The Journal of Socio-Economics. 33(4), 383-393.
Fahlbeck, E. (2007). The horizon problem in agricultural cooperatives–only in theory? In Vertical markets and cooperative hierarchies. Springer, Dordrecht. pp. 255-274.
Figueiredo, V., & Franco, M. (2018). Wine cooperatives as a form of social entrepreneurship: Empirical evidence about their impact on society. Land Use Policy, 79, 812-821.
Garrido, S. (2022). Cooperatives, opportunism, and quality product: Why the early Spanish cooperative wineries produced ordinary wine. Business History, 64(1), 118-133.
Grashuis, J., Su, Y. (2019). A review of the empirical literature on farmer cooperatives: Performance, ownership and governance, finance, and member attitude. Annals of Public and Cooperative Economics, 90(1), 77-102.
Hakelius, K., & Hansson, H. (2016). Members' attitudes towards cooperatives and their perception of agency problems. International Food and Agribusiness Management Review, 19(4), 23-36.
Nilsson, J. (1997). Inertia in cooperative remodeling. Journal of Cooperatives, Vol. 12 (1142-2016-92732), pp. 62-73.
Orozco, L. (2014). Tournament mechanism in wine-grape contracts: Evidence from a French wine cooperative. Journal of Wine Economics, 9(3), 320-345.
Santos-Arteaga, F.J., G. Schamel. (2018). "Firm Organizational and Payoff Imbalances: An Ag-grievement Model with Cooperatives and Private Firms." Journal of Wine Economics. Vol 13(3) pp. 263-281.
Schamel, G. (2015). Can German wine cooperatives compete on quality? In BIO Web of Conferences. Vol. 5, p. 03003. EDP Sciences.
Tortia, E. C., Valentinov, V. L., & Iliopoulos, C. (2013). Agricultural cooperatives. Journal of Entrepreneurial and Organizational Diversity, 2(1), 23-36.
Valentinov, V. (2007). Why are cooperatives important in agriculture? An organizational economics perspective. Journal of institutional Economics, 3(1), 55-69.
Valette, J., Amadieu, P., & Sentis, P. (2018). Cooperatives versus corporations: Survival in the French wine industry. Journal of Wine Economics, 13(3), 328-354.

File Upload (PDF only)
- AAWE-2022-Conference-Abstract.pdf

Consent
✔ I agree to the privacy policy.

AAWE 2022 Conference

TIBLISI - August 2022

Abstract Submission

Quality Performance in a Wine Cooperative: A Quantitative Case Study

Guenter Schamel
Faculty of Economics and Management, Free University of Bozen-Bolzano
guenter.schamel@unibz.it

An array of problems related to the cooperative organization model has been investigated in the scientific literature. They include variants of agent and incentive problems (Borgen, 2004; Hakelius and Hansson, 2016, Valette et al., 2018), moral hazard and adverse selection problems (Orozco, 2013), scale-up problems (Tortia et al., 2013), and adjustment problems (Nilsson, 1997). A growing number of papers has highlighted the strengths and advantages of the cooperative organizational model (Fahlbeck, 2007; Figueredo and Franco, 2018; Valentinov, 2007) explaining their continued existence.

Garrido (2022) discusses low-quality standards, resulting from opportunistic behavior by member growers in wine cooperatives. Schamel (2015) shows negative reputation effects of wines produced by German wine cooperatives. Grashuis and Su (2019) provide a review the empirical literature on farmer cooperatives concentrating on performance measures, ownership and governance structures, financial indicators, member attitudes as well as farm size. They present some evidence that wine cooperatives are not able to produce quality products as well as other organizational forms. However, they report no evidence how farm size impacts product quality performance. In a theoretical paper, Santos-Arteaga and Schamel (2018) provide evidence that cooperative may outperform private firms (IOFs) in terms of social surplus. The main goal of this paper is to lay out how a wine cooperative can incentivize its members to deliver high quality grapes. We describe in detail how the incentive and quality control schemes influences the quality of the grapes delivered and the resulting payments and price premia that the grape growers receive.

Empirically, the present paper takes a novel approach, analyzing grape delivery from member growers of a wine cooperative in Alto Adige, Northern Italy. This data is complemented by information on the incentive and quality control scheme that the growers are facing and data on the size of their vineyard operation. The data set was obtained through direct collaboration and through qualitative interviews with members of the cooperative and their management (i.e. the winemaker and the agronomist).

Using a detailed data set for all grape deliveries from individual members of a cooperative over the vintages 2016-19 and the existing quality delivery incentives, we are able to explain why growers received a price premium or discount per kg of grapes delivered. The analysis distinguishes between varieties, vintages, and quality levels analyzing absolute and relative price premia. In this respect, we highlight the importance of the continuous evaluation process in the vineyard, the quality grading of the vineyards and the grapes upon delivery and the wine growers' dedication, enabling the cooperative to address the low quality and incentive problems as well as the moral hazard and adverse selection

problems mentioned in the literature. Moreover, we provide first evidence on how farm size affects quality performance of a wine cooperative.

The literature provides limited evidence on how member farm size affects cooperative performance measures related to product quality. This paper is a first analysis analyzing wine growing farms. We confirm the hypothesis that the relative size of a winegrowing operation has a significant impact on grape quality delivered and an inverse impact on the payment farmers receive for their grapes. Hence, smaller farms deliver higher quality grapes. This result is observable across varieties and quality levels. Vintage conditions have a moderating effect on these results.

References:

Borgen, S. O. (2004). Rethinking incentive problems in cooperative organizations. The Journal of Socio-Economics. 33(4), 383-393.

Fahlbeck, E. (2007). The horizon problem in agricultural cooperatives–only in theory? In Vertical markets and cooperative hierarchies. Springer, Dordrecht. pp. 255-274.

Figueiredo, V., & Franco, M. (2018). Wine cooperatives as a form of social entrepreneurship: Empirical evidence about their impact on society. Land Use Policy, 79, 812-821.

Garrido, S. (2022). Cooperatives, opportunism, and quality product: Why the early Spanish cooperative wineries produced ordinary wine. Business History, 64(1), 118-133.

Grashuis, J., Su, Y. (2019). A review of the empirical literature on farmer cooperatives: Performance, ownership and governance, finance, and member attitude. Annals of Public and Cooperative Economics, 90(1), 77-102.

Hakelius, K., & Hansson, H. (2016). Members' attitudes towards cooperatives and their perception of agency problems. International Food and Agribusiness Management Review, 19(4), 23-36.

Nilsson, J. (1997). Inertia in cooperative remodeling. Journal of Cooperatives, Vol. 12 (1142-2016-92732), pp. 62-73.

Orozco, L. (2014). Tournament mechanism in wine-grape contracts: Evidence from a French wine cooperative. Journal of Wine Economics, 9(3), 320-345.

Santos-Arteaga, F.J., G. Schamel. (2018). "Firm Organizational and Payoff Imbalances: An Ag-grievement Model with Cooperatives and Private Firms." Journal of Wine Economics. Vol 13(3) pp. 263-281.

Schamel, G. (2015). Can German wine cooperatives compete on quality? In BIO Web of Conferences. Vol. 5, p. 03003. EDP Sciences.

Tortia, E. C., Valentinov, V. L., & Iliopoulos, C. (2013). Agricultural cooperatives. Journal of Entrepreneurial and Organizational Diversity, 2(1), 23-36.

Valentinov, V. (2007). Why are cooperatives important in agriculture? An organizational economics perspective. Journal of institutional Economics, 3(1), 55-69.

Valette, J., Amadieu, P., & Sentis, P. (2018). Cooperatives versus corporations: Survival in the French wine industry. Journal of Wine Economics, 13(3), 328-354.