Bordeaux 2016 Abstract Submission

Title
SURVIVAL IN THE FRENCH WINE INDUSTRY: CAN COOPERATIVES RESIST BETTER?

I want to submit an abstract for:
Conference Presentation

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Keywords
wine industry – survival – cooperatives

Research Question
Are cooperatives more likely to survive than corporations in the French wine industry?

Methods
We use survival analysis. The nonparametric Kaplan Meier method estimate survival probabilities as a function of time. Then, the Cox model explore the relationship of the hazard function to predictors.

Results
French wine cooperatives are more likely to survive than corporations.

Abstract
Purpose
This paper examines the ability of cooperatives to survive after crisis, during a turbulent environment. We focus on the French wine companies. The French wine industry is worthy of investigation because it has been exposed to the combined effects of globalization, exacerbated international competition and decrease of wine consumption in traditional producing countries. The sales of French wines have fallen dramatically during the year 2000s on the domestic and export markets, forcing companies to adapt their strategies and to achieve a better fit to their environments (Stoeberl et al., 1998). Consequently, the entire industry evolves and undergo irreversible transformations in its competitive dynamic (Agarwal et al., 2002). We suppose - following the well-
known adage - that is not the fittest, but the most adaptable who will survive. Thus, while most studies on the topic try to highlight relevant strategy to create value and perform in these changing conditions, we reexamine the adaptability of French wineries to their environment through an original approach: survival analysis.

Research question
Survival analysis is generally defined as a set of methods for analyzing data where the outcome variable is the time until the occurrence of an event of interest, e.g. the failure of a business. In other terms, survival analysis tries to explain why some firms have more chance to continue in business than others. Thus, a lot of determinants (key factors of survival) are found in the literature. Among them, two are particularly important: the ownership of the enterprise and its governance (Burdín, 2014; Iwasaki, 2014). Applied to the wine sector, this reminds the traditional distinction about cooperatives and corporations. As cooperatives are owned by their members, some crucial differences exist between them and corporations: (i) voting power is distributed through the rule of “one member-one vote”, (ii) benefits are proportional to patronage, not investment, and (iii) while corporations seek only maximum profitability, cooperatives assume the dual objective of providing member benefit and seeking firm profitability. These aspects reveal that cooperatives have a singular allocation of value.

So far, in the French wine industry, most studies focus on commercial strategies and their impact on performance and value creation. We propose a renewed approach, dealing with value allocation and survival. In this context, we ask if cooperatives are more likely to survive than corporations.

Hypothesis
Cooperatives have long been considered only from the perspective that they suffer from property rights constraints and consequently have been the subject of many criticisms by economists (Nilsson, 2001). Particularly in the wine industry, they are known for their member-orientation, leading to a business policy of production orientation, far from the recommendations on customer focus (Hanf and Schweickert, 2014). However, some recent studies demonstrate that cooperatives are actually a modern form of organization that is able to balance economic constraints and new societal expectations (Núñez-Nickel and Moyano-Fuentes, 2004; Iliopoulos, 2015). Moreover, many scholars argue that cooperatives are more resilient in time of crisis (Birchall, 2012; Birchall and Ketilson, 2009; Roelants et al., 2012). The major arguments advanced are as follows: cooperatives can use abundant capital to absorb shocks during the crisis; democratic control ensures the involvement of members and leads to a better capacity to react quickly; each member’s capital investment creates a feeling of responsibility and leads to better commitment, and the involvement of members creates opportunities to pursue aims beyond business success and contributes to a durable business.

As the French wine sector experienced a sector-specific crisis that was at its paroxysm in 2004 and 2005 (Declerck and Viviani, 2012) and was necessarily affected by the global crisis in 2009, the distinction between cooperatives and corporations is more timely than ever. Hanf, Henrich and Schweickert (2007) argue that wine cooperatives which adapt relatively early to the new requirements have a good chance of surviving in this highly competitive market. In the same line, despite a lack of proof in sector-specific empirical studies, we assume that French wine cooperatives survive better than corporations, especially in a turbulent environment. This choice is made for two reasons. First, theoretical foundations agree to highlight the high potential of cooperatives. Second, most studies in the wine sector have dealt with financial performance. However, in cooperatives, the classical estimators of performance could be biased by winegrowers’ remuneration. In this paper, we expect different results because we analyze the survival of cooperatives, i.e. their ability to resist over time.

The first hypothesis that will be tested is: cooperatives have a better survival rate than corporations. These last decades, the long term success and survival of a firm in the wine industry have been described in the literature as depending mainly on a firm’s ability to become market oriented, and to engage export and intangibles efforts (Amadieu and Viviani, 2011; Maurel, 2009; Simon-Elorz et al., 2015). However, cooperatives are often less engaged in intangible investments and export effort than corporations (i.e. commercial strategies), because of their member-orientation (Amadieu et al., 2013; Hanf and Schweickert, 2014). This suggests that cooperatives possess specific capacities for survival.

The second hypothesis that will be tested is: the determinants of survival are different for corporations and cooperatives.

Thus, the aim of this paper is to investigate beyond the classic determinants of survival and to highlight specific
factors that allow cooperatives to better resist, assuming that the main difference between corporations and cooperatives rely on the allocation of value.

Methodology
Survival analysis allows determining the time length before a particular event occurs - in our case, business demise. In a first step, using a nonparametric estimator of the survival function, the Kaplan Meier method, we will estimate survival probabilities as a function of time. We will obtain descriptive statistics about survival in the French wine industry, and will be allowed to compare our two groups of subjects: corporations and cooperatives. In a second step, using the Cox proportional hazards regression model, we will test for differences in survival times in our two groups, adjusting for covariates of interest. Most importantly, the Cox model will enable us to interpret information regarding the relationship of the hazard function (i.e. instantaneous risk of demise – probability that the event occurs at a time t, knowing he was not held in t-1) to predictors. Thus, we will: (i) check if the main determinants of survival in the wine industry could be indifferently applied to corporations and cooperatives, (ii) investigate about specific factors of cooperatives’ survival.

Preliminary findings and expected results
Our first results indicate that the survival function of cooperatives is significantly different from the one of corporations: the percentage of survivors over time is superior from cooperatives. In other words, French wine cooperatives are more likely to survive than corporations. The main hypothesis of the paper is validated: survival of French wine companies differs according to their status.
As literature predict, we expect the main determinants of survival to be different for cooperatives and corporations. More precisely, we predict that cooperatives are able to absorb a part of the impact of the wine crisis at the expense of their members, explaining their better survival rate.

References