

Padua 2017 Abstract Submission

Title

Which theoretical approach for the coordination between firms in the organizations “wine AOC”? The importance of the informal coordination mode

I want to submit an abstract for:

Conference Poster Session

Corresponding Author

Yann Durrmann

E-Mail

yann.durrmann@yahoo.fr

Affiliation

University of Strasbourg

Keywords

wine AOC / coordination / adverse-selection / opportunism / reputation / coopetition / hybrid organization

Research Question

What is the economical value of the wine AOC?

What theoretical framework is needed to understand the operation of the organization “AOC” and which mode of coordination for them?

Methods

bibliographic analysis

Results

The AOC reduces the risk of market failures, they are paradoxical organization for which one the informal way of coordination are essential

Abstract

In 2016, 57% of the wine produced in France was coming from “Appellations of Controlled Origin” (AOC) (LARVF). Into those organizations, the adherents companies fix common production rules. Are the agreements between firms in the wine AOC organizations economically useful or are they cartels? This study focus on the information situation of this market and the theoretical framework needed to understand the operation of the AOC organization in order of its efficient management.

According to Nelson's (1970) good classification the good “wine” has the attributes "experience" (non-observable quality prior to purchase) and "trust" (not measurable quality even after purchase); which show a situation of imperfect information situation (Calvet, Raynaud and Valceschini, 2005). The uncertainty of the wine's qualities for the buyer is also explained by his current principal quality criterion which is his aesthetic taste (Charters and Pettigrew, 2005), quality criterion which assessment is subjective. Those contributions point the risk of adverse-selection in the wine market.

In addition, Vaele and Quester (2009) showed that extrinsic qualities may be more influential than the intrinsic qualities in the choice of wine's buyers. Similarly, Golan and Shalit (1993) pointed out that there are not explainable price differences between bottles having very close intrinsic qualities, so the buyer's opinions on the quality of the wine are easily suggestible. Thus, in the case of wine, the causal link between price and perceived quality can be reversed: it is no longer the quality that makes a price, but the price that changes the perception of its quality. Those contribution shows the risk of opportunism from the wine producers.

Finally the imperfect information situation on the wine market do not result from usual firm's strategy of differentiation but is consubstantial to the nature of the good “wine”.

The purpose of the "wine AOC" organizations is to overcome the market failure risks of this situation of imperfect information by the management of a collective reputation.

What theoretical framework is needed to understand the work of the AOC organization? The AOC are paradoxical organizations. First in term of firm strategy: the members of the AOC adopt in the same time competitive and cooperative behaviors, which is a situation of "Coopetition" according to the definition of Battista (2007). Secondly, in term of structure according to the transaction cost's theory of Williamson (1996), the AOC organization are between the market and the internalization; so they are hybrid organizations (Perrier-Cornet and Sylvander, 2000, Calvet, 2005).

Historians have found that geographical origin names were associated with agricultural products of superior quality from the fourth century BC (Bertozzi, 1995). Even nowadays the territorial origin of the wine is one of the main quality criteria for consumers (Veale and Quester, 2009). The AOC is a "true constructivist project" (Barrere, 2003, p.22). They do not create a local reputation, but recognize and institutionalize it in the meaning of Gundolf and al. (2006). The creation of an AOC is the result of a proactive attitude of the firms to defend a pre-existent territorial reputation. Thus, the territorial reputation of the AOC no longer appears as a co-production of the companies, but as a "natural" resource they share and shall preserve. In this event, the AOC get identified as self-organization within the meaning of Ostrom (2010)

What mode of coordination for the organization wine-AOC?

Cheriet and Dikmen (2014) differentiate the formal modes of governance based on control mechanisms and the informal modes of governance based on the concept of trust. Regardless of the framing of the organization previously retained, the academic literature supports the use of informal coordination mechanism based on trust between the actors. "How to trust a competitor? [...] How to combine antagonist strategies? How to be both partner and competitor?" (Pellegrin-Boucher, 2007, p111-112). Shares of socialization and the emergence of a leadership are needed to manage: situations of coopetition (Pellegrin-Boucher, 2007), hybrid organizations (Ménard, 1997) as well as for self-organization (Ostrom, 2010).

In addition, the college good "reputation" is a service, whose individual contributions to collective performance are not measurable. This fact makes irrelevant formal coordination mechanisms, and encourages the use of more subtle means of coordination. Techniques for managing the collective production of this type of property are also based on subtle approaches such as the establishment of a corporate culture (Ménard, 2012) or the internalization of values (Rocca, 2009).

The challenge of the AOC's management is the same of all democratic organizations: the challenge of coordination without subordination. The purpose of the coordination in the AOC is the production of a common reputation (through formal and informal rules), but also the production of the rules themselves. Informal coordination mechanisms are crucial since it is from them that will be defined, recognized and institutionalized the formal rules of the group (Ostrom, 2010). In this way, rules and trust are not opposite, but goes from a complementary to a systemic relationship.

Of the same, for Das and Teng (1998), trust and control are not opposed. These two mechanisms can coexist and complement each other, trust is a specific kind of control. For Granovetter (1985) the social and economic relations are embedded, trust does not happen by the formality of the institutions but by the interaction between interpersonal relations simultaneously economically and socially. For Zago (2015) trust in a collective agricultural reputation is no longer possible in a large group when it became impossible for the members to know each other. This is why the level of formal rules correspondingly increases as does the size of the group.

Ostrom (2010) identified the problem of credible commitments. What mechanism can restrain the individual rationality leading to the tragedy of the commons of Hardin (1968): the sacrifice of some immediate gain in exchange for a future gain hypothetically superior? "The key factor in the organization's survival lies in the weaving of interdependence between actors" (Ostrom, 2010, p.54). Social proximity and community life make this commitment: "individuals shared their past and plan to share their future. It is important for individuals to maintain their reputation as reliable members of the community " (Ostrom, 2010, p.112).

This is from its informal coordination mechanisms that will eventually be developed formal rules of the group: "the AOC is owned and managed by the group as a democratic principle" (Zago, 2015, p.31). The challenge of coordination without subordination is the challenge of democratic action in general. A good level of internal trust

within the organization is necessary to its survival: it defines its ability to adapt to the changing socio-economic environment; the innovation of today can become the tradition of tomorrow.

The trust mechanism is only usable if the actors are "embodied", if there are men behind the features. In the AOC, the family nature of the firms supports this approach; each winemaker "embodies" his company because it bears his family name.

For Ménard (2012, p.68) the "motivations that can be called non-market in that they largely escape the price mechanism" are a central determinant of cooperative behavior. What can be the internal motivations shared between agents within the AOC to base a collective action? The family character of the firms within the AOC (Perrier-Cornet and Sylvander, 2000) may be an internal motivation agent via the sustainability of their firms and the will of their transmission to future generations. This approach is consistent with the evolutionary theory of Nelson and Winter (1975): the company's goal is not to make profit but its biological will to survive.

In conclusion, this paper shows that those organizations are useful for the function of the wine market by limiting the risk of adverse-selection and opportunism behavior due to the existence of a collective reputation. The informal way of coordination based on the mechanism of trust between the actors are fundamental for the management of these organizations.

NB: All the french writers' quotations of this paper were translated in English by the author

Bibliography

Books

- MENARD C. (2012) *L'économie des organisations*, La Découverte « Repères », 3e éd., Paris, 128 pages.
NELSON R. et WINTER S. (1985), *An Evolutionary Theory of Economic Change*, Harvard University Press, 454 pages
OSTROM E. (2010) *Gouvernance des biens communs*, De Boeck, Bruxelles, 304 pages
ROCCA M. (2009) *Le management de la performance du travail*, l'Harmattan, Paris, 146 pages
WILLIAMSON O.E. (1996) *The Mechanisms of Governance*, Oxford University Press, 448 pages

Articles

BARRÈRE, (2003) « Un processus évolutionnaire de création institutionnelle d'une convention de qualité : l'histoire exemplaire de la création d'un produit de luxe, le Champagne », *Economie appliquée*, 2003/3, pp. 133-170.

Available on :

(consulted 05/05/15)

BATTISTA DAGNINO G. (2007) « La dynamique des stratégies de coopération », *Revue française de gestion* 7/ 2007 (n° 176), p.87-98. Available on : (consulted 23/12/14)

BERTOZZI L. (1995) « Designation of origin: quality and specification », *Food Quality and Preference*, n° 6, pp. 143-147. Available on : (consulted 20/08/15)

CALVET J. (2005) « Les clusters vitivinicoles français à AOC » Une analyse en termes de biens clubs, *Revue d'Économie Régionale & Urbaine*, 2005/4 octobre, p.481-506. Available on : (consulted 22/03/2014)

CHARTERS S. et PETTIGREW S. (2005) « Is wine consumption an aesthetic experience ? », *Journal of Wine Research*, vol. 16, n°2, 2005, p.37-52. Available on (consulted 20/05/15)

CHERIET F. et DIKMEN GORINI L. (2014) « Contrat ou Confiance ? Effets de la gouvernance sur les performances des alliances stratégiques asymétriques », *La Revue des Sciences de Gestion*, 2014/2 N° 266, p. 43-51. Available on : (consulted 06/05/15)

DAS T.K. et TENG B.S, (1998) « Between trust and control : developing confidence in partner cooperation in alliances », *The Academy of Management Review*, Vol.23, n° 3, p. 491-512. Available on : (consulted 01/06/15)

GOLAN A. et SHALIT H. (1993) « Wine Quality Differentials in Hedonic Grape Pricing », *Journal of Agricultural Economics*, vol.44, n°2, p.399-407. Available on : (consulted 01/06/15)

GRANOVETTER M. (1985) « Economic Action and Social Structure: The Problem of Embeddedness », *American Journal of Sociology*, n° 91, p.481-510. Available on : (consulted 20/07/15)

GUNDOLF K., JAOUEN A. and LOUP S, (2006) « La place des institutions locales dans les stratégies collectives: le cas du secteur du tourisme » *Revue Française de Gestion*, numéro 32 pages: 141-156. Available on : (consulted 17/03/2015)

HARDIN G. (1968) « The Tragedy of the Commons », Science, Vol. 162, No. 3859, pp. 1243-1248 Available on : (consulted 20/05/15)

MENARD C. (1997) « Le pilotage des formes organisationnelles hybrides », Revue économique, vol 48, n° 3, p.741-750. Available on : <http://www.persee.fr/web/revues/home/prescript/article/reco_0035-2764_1997_num_48_3_409912 (consulted 14/03/15)

NELSON P. (1970) « Information and Consumer Behavior », Journal of Political Economy, Vol. 78, march-avril. Available on : (consulted 01/06/15)

PELLEGRIN-BOUCHER E. et FENNETEAU H. (2007) « Le management de la coopétition : Le cas du secteur des ERP », Revue française de gestion, 2007/7 n° 176, p. 111-133. Available on : (consulted 24/03/15)

PERRIER-CORNET P. et SYLVANDER B. (2000) « Firms, coordinations et territorialité Une lecture économique de la diversité des filières d'appellation d'origine », Économie rurale. N°258, p.79-89. Available on: (consulted 03/02/15)

RAYNAUD E. et VALCESCHINI E. (2005) « Collectif ou collusif ? », Revue internationale de droit économique 2/ 2005 (t. XIX, 2), p. 165-195. Available on : (consulted 03/02/15)

VEALE R. et QUESTER P. (2009) « Do consumer expectations match experience ? Predicting the influence of price and country of origin on perceptions of product quality », International Business Review, n°18, p.134-144. Available on : (consulted 01/06/15)

ZAGO A. (2015) « La réputation collective sur les marchés agricoles », Économie rurale. N° 345, p.29-51. Available on : (consulted 05/05/15)

Other source

LARVF (La Revue des Vins de France) « Le Vin en quelques chiffres clés » . Available on :