

Ithaca 2018 Abstract Submission

Title

How to grow better grapes and make more money: An Exploratory Member Survey of Wine Cooperatives

I want to submit an abstract for:

Conference Presentation

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Keywords

Cooperative, Organization, Economic Performance, Grape Quality, Price Incentives

Research Question

What are structural, organizational and social factors that determine the success of wine cooperatives?

Methods

We survey a sample of cooperative members to evaluate structural, organizational and social factors potentially contributing to their own economic success (relative payment per kg).

Results

We identify structural and organizational factors as well as a strong shared or common vision of the future for the cooperative firm potentially contributing to the economic outcome of members.

Abstract

Several studies have found that wine cooperatives are often struggling to produce higher quality grapes that allows them to receive better retail prices for their wines. Pennerstorfer and Weiss (2013) show that cooperative members have an incentive to overproduce and free ride on product quality. Schamel (2015) finds that German wine cooperatives fail to gain quality premiums for important quality categories and varieties including Rieslings. In contrast, Schamel (2014) shows that wine cooperatives in South Tyrol perform well relative to their local competitors, both in terms of the price premium for wine quality and in terms of the collective reputation premium for their wines. In particular, this result is attributed to the presence of price incentives tied to grape quality. As this latter result is in contrast to other studies, it warrants further examination. For this purpose, we surveyed the members of all 14 local wine cooperatives in South Tyrol to evaluate the factors potentially contributing to their economic success. In particular, we are interested in the structural, organizational and social factors that may help to explain the phenomena.

Social capital can be regarded as a specific input related to cooperative firms. Nilsson et al, (2012) explain the relevance of social capital for cooperatives as well as the mechanisms behind the decline of social capital in cooperatives. We base our definition of social capital on Coleman (1994) and Putnam (2000). Coleman (1994) postulates that "social capital, like other forms of capital, is productive and facilitates the achievement of certain ends that would be impossible in its absence". Putnam (2000) identifies social capital as "social networks (among individuals) and the norms of reciprocity and trustworthiness that arise from them." In this paper, we would like to identify specific elements of social capital that may contribute to the economic success of cooperative members

and hence to the survival of cooperative enterprises in the wine sector.

In order to answer the research question, we survey members of wine cooperatives to evaluate important organizational and social factors that may potentially contribute to the payout received for delivering their grapes. Payout measures economic success and is an ordinal variable identifying a relative payment per kg of grapes, i.e. a percentage premium or discount relative to the average payout for all grape deliveries in 2015. Organizational factors include variables such as existing grape-quality assessment criteria and training activities as well as transparent operations in the cooperative. Social factors are summarized as social capital that includes variables such as commitment, trust, and the strengths of personal relationships.

We propose that a “shared or common vision on the future direction of the cooperative” is as an important element identifying the working social capital of cooperatives (or the network of relations among cooperative members and related norms that arise from them, facilitating the achievement of economic success that would not be possible in their absence). Specifically, we examine whether the working social capital of cooperatives depends on specific social and organizational variables such as commitment, trust, strengths of winemaker relationships, participation in training activities and/or the presence of specific quality assessment criteria. Moreover, we examine if the payout or economic success of cooperative members can be explained by a set of structural variables and social capital.

The data set examined empirically consists of a sample of 357 observations. Due to missing data points, the usable sample size is reduced to 236 observations. We set up two ordered logit models to explain both the strength of a shared or common vision among cooperative members as well as the payout or economic success received by cooperative members for delivering grapes. Preliminary estimation results indicate that specific social variables such as commitment, trust and personal relationship strengths as well as specific organizational variables (e.g. training activities, quality assessment criteria) help explain the strength of a shared vision among cooperative members. Moreover, a set of specific structural variables (e.g. farm size, transparency) and social capital expressed in terms of the strengths of a common or shared vision help to explain the payout or economic success received by cooperative members for delivering grapes.

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Abstract prepared for 12th Annual Meeting of the American Association of Wine Economists (AAWE) in Ithaca, NY, USA, 10-14 June 2018.

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