

ABSTRACT

CONTRACT CHOICE, QUALITY AND INDUSTRIALIZATION IN THE ARGENTINE WINEGRAPE INDUSTRY : TESTING TRANSACTION COST THEORY

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A perceived change in the organizational focus of agriculture has given rise to the increased use of the term industrialization. Essentially, this change is viewed as a movement from a homogeneous commodity system to one emphasizing product differentiation and quality improvement (Urban [1991]). Movement toward increased product quality is associated with greater contracts and vertical integration. Often drawing contrasts between the “old” agriculture and the “new”, the industrialization literature is largely descriptive (Drabenstott [1994], Hurt [1994]; Boehlje [1995]; Boehlje [1996]). Rather than developing explicit testable hypotheses, the literature discusses outcomes informally and links them with possible motivation factors using frameworks drawn from management (Barkema, Drabenstott and Cook [1993]). With the exception of Hennessy [1996], explicit linkages are left undeveloped. In their place are a number of implicit hypotheses regarding the relationships among contract choice, quality and other changes in agriculture.

This paper focuses on contract choice and product quality in a quality differentiated product system : the Argentine winegrape industry. Indeed, contracting is increasingly important as a means of organizing winegrape transaction. Explicit evaluation of the factors underlying the choice and design of the contract is particularly important now. In order to assess this institutional arrangement, it is essential to test a theory underlying existing explanations of these contracts. Using transaction cost theory, we derive a specific set of theoretical hypotheses in order to understand :

1. the trade-off between *make* (vertical integration) or *buy* (contracting) in the winegrape transaction;
2. the contract design : growers and wineries choose simultaneously price and quality provisions.

Testing econometrically these hypotheses on a 4, 449 contracts database between growers and wineries in the region of Mendoza, we find some confirmation of these hypotheses.