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MANAGING A BRAND IN THE TOMATO SECTOR : AUTHORITY AND ENFORCEMENT MECHANISMS IN A COLLECTIVE ORGANIZATION.

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Abstract :

In agricultural subsectors, collective organizations such as producer groups or second-degree cooperatives frequently cope with management of brand names. The success of these brand names depends upon the ability of actors to collectively create, guarantee and sustain a stream of rents based upon brand reputation. The key issue for these collective organizations will be to create specific coordination mechanisms in order to build and safeguard this reputation. Drawing from a real case in the French tomato sector, the research focus on the governance mechanisms, and especially authority and enforcement mechanisms. We show that, in a case study, the collective organization can be analyzed as a combination of governance mechanisms. These mechanisms are aligned with the main contractual hazards found between actors. They are a mix of individual and collective incentives, of external and internal controls and of authority based upon a delegation of power.

1- Introduction

The development of brand names, in the fresh fruit and vegetable sectors, is relatively recent. These brands are the core of product differentiation strategies, both horizontal and vertical. Due to the specific constraints of fresh products (perishability, quality variability ...) and of the structure of the chain (atomistic, and with numerous vertically and horizontally-dependent actors), this development and success of brand names place organizational innovation as one of the determinant features of competitive position. Indeed, this invisible technology of coordination, specifically when agents must face contract incompleteness, uncertainty and externality problems, will be the result of an array of institutional arrangement choices.

The main objective of this paper is to understand the design of governance structures between autonomous agents, organized in producer groups and second-degree cooperatives in charge of the management of a common brand name. This research borrows essentially from transaction-cost economics (TCE). First, we will precisely define this conceptual framework. Secondly, we will describe the mechanisms of governance, i.e. the design of governance structures and their related mechanisms. The case of a collective organization in the French fresh tomato sector constitutes the empirical basis of the analysis. In this particular case, we

will see that the identification of the main sources of contract incompleteness is necessary. We show that authority and enforcement mechanisms emerge as an answer to fill the gaps of contract incompleteness.

2- A transaction-cost approach to brand governance

2-1 Governance structures : definition, implications

The key concept of TCE is the governance structure, defined by Williamson as "the institutional matrix in which the integrity of a transaction is decided" (Williamson, 1996:378). This notion helps to understand why and how agents build and set up coordination devices. Indeed, in order to perform in a competitive environment, these agents have to lower organization costs under behavioral assumptions of bounded rationality and uncertainty. For Williamson "prescribing governance structures in order to provide cost-effective relief against maladaptation hazards is a recurrent theme (of TCE). More generally, the study of governance is concerned with the identification and mitigation of all forms of contractual hazards" (Williamson, 1996:5).

Contractual hazards may be of various nature. Williamson defines five categories (Williamson, 1996:14) : bilateral dependency, weak property rights, measurement hazards, inter-temporal hazards, weak institutional environment. These contractual hazards are contingent upon each specific situation : thus a major step of the analysis is to clearly identify them and to link them to a specific "private order", that is a governance structure or a combination of governance structures. Contractual hazards can be mitigated through the judicial system, or the so-called institutional environment. But the contractual problems that may face the agents are far too complex and specific to be solved by this common rule. This is why inter-individual or collective governance structures are necessary.

Several empirical studies showed that relations among producers involved in a collective brand are piloted by hybrid structures (see for instance Ménard, 1996 and Raynaud, 1999). Hybrid governance structures are defined as "the most complex form of contractual arrangements, because they require more coordination than markets while property rights remain distinct, so that disputes tend to arise continuously with no simple settlement devices : the result is that these contracts are enforced through complex mix of build-in mechanisms, private ordering and public interference (Ménard, 1998:26) ". For Ménard, hybrid form are characterized by a specific decision mechanism, authority : "authority is a delegation by legally autonomous actors of decision power on a sub class of their actions" (Ménard, 1997:746). This concept of authority allows to focus the analysis on the delegation principle (how it works) and on the specific actions that will be delegated by actors (which actions and why). Consequently, our analysis will focus on these hybrid forms seen as a combination of governance mechanisms.

2-2 Hybrid form as a combination of governance mechanisms

Firstly, Raynaud clearly distinguishes the design of the contract, i.e. its internal structure, and the contractual architecture, defined as "the way of which the set of the bilateral contracts between the agents is organized" (Raynaud, 1999:16). The relative institutional position of actors regarding absolute and relative property rights matters and helps to delineate the various mechanisms and their distribution. This institutional structure, and not only the set of transactions is organized, is part of governance structures and will be useful to understand the working of multi lateral governance structures.

A governance structure tries to establish an order between autonomous agents to realize and share mutual gains. The contractual architecture defines the roles and mutual obligations of the parts. But when contracts are incomplete, all the obligations are not

specified ex ante : as a consequence, several additional mechanisms are necessary, in particular, procedures to fill the gap of the initial contract, mechanisms to enforce the contractual promises. Thus agents "design incomplete contracts that do not implement a complete set of (possibly contingent) behavioral rules to be ex post enforced, but implement decision making devices that ex post will state the required behavior to ensure the possible most efficient coordination (Brousseau and Fares, 1998:17)". Following Brousseau and Fares (1998) we propose to study governance in hybrid forms as a combination of three types of mechanisms :

-supervision mechanism : the contractually settled rules or the decision made by the entity to which authority was given have to be enforced by a supervision mechanism. In hybrid forms, "decision-making devices rely on the recognition by contractors of an authority and subordination principle. (...) The decision-making device can be one of the contracting parties –this is the case in hierarchical governance structures- a negotiation structure- as in many hybrid forms- or a third party (Brousseau and Fares, 1998:17) ".

-incentive and control/coercion mechanism, designed to "incite contractors to follow the behaviors required, or on the contrary, to dissuade them from adopting behaviors opposed to their commitments" (Brousseau and Fares, 1998:18).

-arbitration mechanism is "necessary to solve conflict" (Brousseau and Fares, 1998:19). These conflicts find their source in voluntary or involuntary opportunistic behavior. But in any case, it is essential to design a clear "allocation of rights to state what is the actual situation of pair, and therefore the actual rights and duties of the parties, when conflicts occur" (Brousseau and Fares, 1998:19).

3- A collective organization in the tomato sector

From theoretical developments, the empirical analysis will follow two points : first, the description of the organizational structure and sources of brand reputation, second the description of governance mechanisms aiming at the mitigation of contractual hazards. Our research draws upon a real case, Saveol. In order to clearly distinguish the brand from the organization, we will call Saveol the former and Saveol group the latter.

3-1 Presentation of Saveol group.

Saveol is a collective brand name involving more than one hundred independent tomato growers. Created in 1981, Saveol brand is now the leader of the French fresh tomato market, with a market share of approximately 12% (70,000 tons in 1999). Under the brand name Saveol there is in fact a complex hybrid organizational form. Producers constitute the basis of this organizational form. They are highly specialized in tomato production and have heavily invested in greenhouses. These producers are organized through four producer groups. The role of these producer groups is to organize technically the production and the sorting of the products. These producer groups are themselves the four main shareholders of a private firm called SMO ('Société Maraichère de l'Ouest'). This firm is the owner of the brand name Saveol and is in charge of the marketing strategy (promotion, sales...) of the whole organizational form (Philippe and Sauvée, 1999).

Consequently there are two transactional levels in Saveol : the first one between producers and producer groups, the second one between producer groups and SMO. The first level illustrates a classical producer/producer-controlled organization relationship. Its main feature is the existence of marketing agreements which specify the quality of tomato and supply conditions for each member. The second level shows the creation of a new multi-owned firm by four independent cooperatives. Its eight members of the board of directors represents these cooperatives. At these two levels, transaction and institutional characteristics

are different. They lead to specific contractual hazards. Nevertheless, they belong to the same organizational form, as the decision process is unified through the leadership of producers and of their double delegation of power.

Above all this example depicts the main feature of a hybrid form : independent agents dealing with collective brand name. In order to understand the specific contractual problems of such an organization, let us now consider the differentiation strategy of Saveol group.

3-2 Collective strategy and brand reputation.

The reputation of Saveol is strongly linked to an image of top-of-the-range tomato. Saveol group developed a vertical differentiation strategy on a market where products are mainly undifferentiated. Reputation of the brand is due to quality characteristics. Homogeneity of products (color, shape, grade) is the first of these criteria. It is often the condition of entry in supermarket and hypermarket chains. The guarantee of a pesticide-free product is a second criteria especially for direct customers such as purchasing offices.

The measure of the rent associated to this differentiation strategy is difficult. Nevertheless indicators may serve as proxies. Volumes sold evolved from 15,000 tons in 1989 to 70,000 tons in 1999. The market share for the brand was 2 % in 1989 and is now 12 %. Saveol brand name is a success story. Another indicator is the price premium on the final market, which varies from 5% to 15% above the price of unbranded tomatoes. Finally, the brand goodwill, due to the position of market leader, is high.

3-3 Price determination and quality management system

3-3-1 Price discovery and costs repartition in Saveol group.

The market prices for Saveol tomatoes result from a day to day negotiation between sellers from SMO and customers. From that final price, two categories of costs will be defined. Firstly, marketing and RD costs, i. e. costs for advertising and selling the products, and costs linked to technical advice, are deducted. It gives the price paid to the four cooperatives. This price will be the same for all the cooperatives, and RD/marketing cost are globalized. The second category of costs are the sorting and conditioning : they depends upon each cooperative and may differ. The market price minor these two costs give the price paid to the individual producer.

Price discovery in Saveol group combines several mechanisms. The market price system is determinant and one could consider Saveol group almost as a quasi market. Individual producers are responsible for their investment and are the only residual claimants for their production. Nevertheless, through these costs, they are also responsible for their own cooperative and of their common property, SMO.

In collective organization, the calculation and repartition of costs (especially their degree of centralization and their repartition between the transactional levels), is not given in itself. On the contrary, it is an integrative part of the final governance structures. The alignment between property rights (collective or individual) and incentive schemes is its main characteristics.

3-3-2 Quality management system

The quality management of Saveol group is based upon two simultaneous mechanisms of ex ante and ex post control. The first mechanism tries to establish a constant visual quality and homogeneity of products. The second mechanism implements a complex procedure of voluntary agreement and a mix of internal and external control . This agreement is the adoption of a specification list for biological and integrated control. Finally, coercion and

incentive schemes will be combined in a global management system. Saveol group is a tightly coordinated system with a clear distinction between mandatory and voluntary schemes.

A complete tracking of products explains the high incentive content of these schemes and allows a perfect observability of individual producers. Differences in market prices due to the norms or due to the adoption of the brand name are totally transferred to the producers.

4- Mechanisms of brand governance

4-1 Decision configuration and supervision mechanisms.

The configuration of decision mechanisms is based upon two systems : the first one between the cooperatives and SMO, the second one between producers and their cooperatives. This two mechanisms are largely complementary and the nature of decisions is different. SMO acts as a central party and is in charge of marketing decisions, while the cooperatives act as a sub decision device for operational and technical procedures.

SMO is in charge of marketing and quality control decisions. The board of managers defined the list of specification. But more importantly, this board is able to impose a planning for product segmentation (for example the percentage of vine tomatoes for Saveol group). This planning is based on market previsions. In the same vein, the board will define volume augmentation from one year to another. SMO acts as a central party responsible for the monitoring of the brand. On one hand, the central party chooses the key decisions enabling the group to create a rent (quality and volume decisions). On the other hand, the central party controls the application of the list of specifications by producers.

This supervision scheme is a negotiation structure, where growers delegate their power to producer groups and to SMO. But there is a clear repartition of tasks between these two levels : the first one deals with technical and operational aspects, while the other is in charge of the marketing strategy. So a clear understanding of how delegation works inside Saveol is determinant. The basic feature of Saveol's decision device relies on the recognition, by the agents, of an authority and subordination principle. Firstly, this notion of authority, key concept in the study of hybrid forms (Ménard, 1997), is found between producers and their cooperatives : the cooperatives are in charge of the sorting and conditioning of the products. The producers delegate this decision right to the board. Secondly, the cooperatives themselves delegate the right to sell the products and to define the marketing strategy to SMO. As pointed out by Raynaud (1999), in hybrid forms, agents create their own "franchisor". In Saveol group, it is paramount to recognize that producers are inside all the boards.

4-2 Incentive and control/coercion mechanisms

As soon as reputation is created and based simultaneously on individual and collective behaviors, the organization has to set up incentive and control mechanisms. Separability and programmability are the two key concepts helping to understand the building of these mechanisms (Sauvée, 1998:33). Separability is the ability to observe/identify who has done the work ; programmability refers to the ability to observe what and how the work is done.

Adoption of a common technique scheme and a well-defined list of specifications is a way to limit programmability. Complementary sorting techniques and centralization of production at greenhouse and cooperative levels are the main mechanisms used to control and incite producers. It supposes the setting up of an efficient information system, and the design of information systems has to be considered in this perspective, as well as the information control configuration. The behavior of these producers is thus constrained by self-enforced mechanisms.

Self-enforcement is

4-3 Arbitration mechanisms

Dispute settlement mechanism has to solve conflicts between actors. One can guess that because of contract incompleteness and potential opportunist behavior of producers, situation of conflicts are likely to appear. Use of courts is always possible, but this solution is often either costly or difficult to implement. In Saveol group, the major possibilities of conflicts arise mainly at the production level, concerning price determination and quality specifications.

Saveol group, appears to be relatively stable. The importance of corporate culture for individual producers is probably the first reason for such a stability. But the fact that cooperatives are the keystone of the system explain this situation. Indeed cooperatives are long-lasting structure, well adapted to agricultural context.

5 Governance mechanisms and mitigation of contractual hazards.

Saveol can be seen, in its institutional structure, as a set of incomplete contracts. The chosen design of governance structures should deal with this incompleteness, and all the induced contractual hazards, through the setting up of different mechanisms.

Saveol group, through its institutional structure, showed its ability to create, protect and maintain the rent connected to brand reputation. But the choice of coordination mechanisms is also the result of the definition and of the repartition of asset specificity. Mainly contingent upon a system's history, it shows the progressive building of a collective strategy between economic agents previously totally autonomous. In our example it is interesting to note that after the emergence of growers, and the constitution of the cooperatives, SMO was created at the beginning of the eighties. Thus, agents are mostly pre-specialized and the repartition of asset specificity is an adaptation more than a break. Nevertheless important changes have affected the governance mechanisms.

As a collective organization, Saveol group faces a wide range of contractual hazards. Some contractual hazards are specifically connected to the brand because we recognized that brand reputation is the main source (but probably not the only one) of rents in this organization. The main contractual hazards that have to be mitigated in Saveol are of two types : measurement hazards and multilateral dependencies.

- Measurements problems are found mainly at the first transactional level, between producers and producer groups. These hazards are due to quality variability both from one period of time to another and from one producer to another (Foss, 1996). Firstly, mitigation of measurement costs is obtained through a high programmability of production : selection of tomato varieties, centralization of research and technical services, definition of a common list of specifications for products. Secondly, a complete observability of producers is possible because of product traceability

- Multilateral dependencies : As soon as independent agents collaborate and expect mutual rent from the cooperation, opportunism problems arise. Economists usually define two types of externalities, which fit in our case study : vertical and horizontal externalities. Vertical externalities are the classical dependencies of agents vertically related through transactions. In Saveol group, vertical dependencies are limited because the intrinsic nature of the governance mechanism. Producers and cooperatives are the multi owners of respectively the cooperatives and SMO. This collective property is a way to limit the free rider problem, especially when the delegation of power works between the three levels. In fact this will be the case as long as producers are incited, through higher prices for their tomatoes, to follow the rules of the group.

Horizontal externalities have their source in the fact that agents share a common brand name. The owner of this brand is SMO, which is the central party of the group. We saw that

the monitoring of the brand is possible because of centralization of authority. Our hypothesis is that opportunism is constrained because the threat for the producer not to sell its product with the brand name Saveol is credible. Indeed the adoption of the list of specification is voluntary and does not prevent a producer to be part of Saveol group. This flexibility is a way to involve and incite producers in limiting their risk. Selling a tomato without brand name is always possible, thus producers will bear only a part of the total risk.

6- Conclusion

An efficient brand management is the one that insures, at the lowest costs, the governance of incomplete contracts through an optimal trade off between *ex post* and *ex ante* mechanisms. These mechanisms have to guarantee "the flexibility necessary for enforcing contracts in a changing environment, while simultaneously providing security to contractual partners continuously vulnerable to the risk of opportunism (Ménard, 1998:27) ".

Our research shows that an hybrid form like Saveol group is a combination of various governance mechanisms. Saveol group is able to create, sustain and protect a stream of rents linked to brand reputation. These governance structures are based on a mutual control and obligation device between independent producers on one hand and a central party (SMO) on the other hand, with the cooperatives as an intermediary structure. This specific institutional structure of production is the core of Saveol group's organizational efficiency.

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