Strategic Choice of Organizational Form: 
A Theoretical Model and Empirical Evidence

Guenter Schamel\textsuperscript{a}, Francisco Javier Santos Arteaga\textsuperscript{a,b}
\textsuperscript{a} School of Economics and Management, Free University of Bozen-Bolzano, Italy
\textsuperscript{b} Universidad Complutense de Madrid, Departamento de Economia Aplicada II, Spain
Guenter.Schamel@unibz.it, FranciscoJavier.SantosArteaga@unibz.it

\textit{Poster prepared for presentation at the Agricultural & Applied Economics Association \\ & Canadian Agricultural Economics Society 2013 Joint Annual Meeting, August 4-6, 2013, Washington, DC}

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We illustrate both empirically and theoretically how cooperatives (relative to private firms) coexist in a coordinated equilibrium and may even obtain a higher social surplus than private firms.

**Theoretical Model:**

- **Private wineries and cooperatives:**
  - Both firms produce wine.
  - The market is competitive.
  - The profit function for each firm is given by:
    \[
    \pi = P - AC - TC,
    \]
    where \(P\) is the price, \(AC\) is the average cost, and \(TC\) is the total cost.
  - The price \(P\) is determined by the market demand and supply.
  - The firms' decision problem is to choose their output levels to maximize profit.

- **Integration with coordination:**
  - Integration is more plausible when the profits of bosses and benefits of managers are similar.
  - Non-integration with coordination is more plausible when the profits of bosses and benefits of managers are dissimilar.

- **Theoretical Model:**
  - We reject the first hypothesis that relative to cooperatives, private producers receive a price and reputation premium relative to cooperatively produced wines.
  - We confirm the second hypothesis that cooperatives receive a price premium for DOC wines and privately owned firms evolve towards segmenting IGT and DOC denominated wines.

**Empirical Analyses:**

- **Hedonic Pricing Model:**
  - We test two hypotheses using hedonic pricing. First, we test whether wines from private firms receive a price and reputation premium relative to cooperatively produced wines.
  - Second, we test whether firms make strategic use of regional denomination rules, i.e., cooperatives receive a price premium for DOC and private wineries for IGT wines.

- **Analyzing Data:**
  - We analyze data for cooperative and private wineries from Northern Italy with retail prices and evaluations for wine quality and producer reputation indicators published in the annual "Le Guide de l'Espresso."