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Analysis of Short Food Supply Chain Governances: Innovative Collective Platforms Supplying Local Produce

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ABSTRACT

This paper addresses the issue of governance diversity of innovative semi wholesale SFSC such as multi stakeholder platforms acting as middlemen between local producers and buyers (individual and collective ones) wishing to procure local products. We apply the new institutional economics approach with special attention to ownership rights allocation (Hansmann, 1988), collective decision-making (Pozzobon and Zylbersztajn, 2013) and associated transaction costs (Williamson, 1991; Menard, 2004; Chaddad, 2012). Those concepts were already used in analysis of various agri-businesses, cooperatives and their vertical relations in supply chains but little has been done in terms of SFSC. We rely on this framework to provide a comparative analysis of their governance structures based on a detailed description of the “horizontal” relations among stake-holders and “vertical” relations between the platforms and their suppliers and customers.

1. Introduction

Increased public interest and support to enhance the development of Short Food Supply Chains (SFSC) has been observed in last decade. For example, in institutional catering, many municipalities push toward the development of local procurement (Allain, 2015). Several new forms of SFSC have recently emerged that include technological and organizational innovations that try to meet this demand. Collective procurement platforms are one of this new form. Collective platforms act as middlemen to ease the match between the supply of local products and demand for these products coming from local retailers and (private and public) institutional catering. They do so by improving information for the buyers on the existing local products, adjusting supply and demand for local products, providing baskets of fresh products and so on. Collective platforms can be (and are) organized in many ways, from e-platforms matching supply and demand to collective organization owning some assets such as storage and logistic capacities. Given the innovative nature of these organizations, the key factors for their economic sustainability is still unclear.

In this contribution, we argue that the governance of these platforms is a critical element of their economic sustainability and that SFSC scholars have not payed attention to these dimensions. Issues such as value creation and value sharing, allocation of decision rights over assets, incentive mechanisms are all important dimensions of the governance of these platforms to analyse in order to assess their potential success. The contribution of this paper is to analyse and explain the diversity of governance modes in collective platforms to assess their economic sustainability.

We build our analysis of the platforms organizational diversity on contributions in organizational economics such as Grossman and Hart (1986), Hansmann (1996) and Williamson (1985, 1991). Issues such as decision making, ownership allocation over relevant assets, value sharing becomes key elements of our investigation.

In order to substantiate our analysis, we rely on a set of 6 case studies in the South West of France that effectively differ in their governance. They can be just market-like governance structures such as on-line platforms that match supply and demand, producer co-constructed initiatives with low or high public support or even structures created with private investments. We observe that type of support received by platforms affects their governance structure and decision-making tools that are potentially cornerstones of their sustainability. Economic organization of platforms strongly rely on managers: we observe that their role and competences in platforms differ. Additionally, also decisions on number of staff and their skills could affect their competitiveness.

2. Presentation of study cases

The empirical study is based on a detailed description of six case studies of multi stake-holder platforms supplying local produce to a variety of customers (supermarkets, institutional public and private catering and others). Information was obtained with semi-structured interviews with managers, producers, some clients and internal documents such as the legal status of the organizations.

Platforms are situated in 3 different departments in the same region (Table 1, Table 2). They differ in terms of potential market in public institutions, number of people and their net salary per month. Diverse agricultural surfaces and number of producers is observed in departments (Table 1).

Table 1: Information about departments in which are platforms

	Department		
	A	B	C
N° of school children	203555	32761	24871
N° of people	1298562	228868	152684
Net salary per month (€)	2517	2151	2028
Agricultural surface (ha)	149030	127300	132200
N° of producers	6760	5160	2660

Our six study cases are briefly presented in Table 2. They have different operative mode from on-line service to give information on potential offer and demand, producers' platforms in which producers are (partially) involved in decision-making. They were created recently, some very recently (A) and some more than 10 years ago (E). They differ in legal statutes and public support given from their creation on. Most of them have all types of producer except one (E) with 100% of organic producers and their number vary. We can draw similarities with clients which differ in number and type of clients. They have chosen different market and supply areas. They have no boards or different numbers of people included in board of platforms. We can observe significant differences in full time employees and their gross sales. Even though initiatives are young, some of them have reached brake-even point, one is close and others quite far (Table 2).

Table 2: General information of study cases

Platform	A	B	C	D	E	F
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Operative mode	on-line	producers'	producers'	producers'	producers'	private
Year of creation	2015	2011	2012	2012	2004	2013
Legal status	association	cooperative	association	association	cooperative	p° company
Public support	yes	yes	yes	not anymore	not anymore	no
N of producers	20	60	15	104	60	140
Type of producers	All	All	All	All	organic	All
N of clients	18	25 per week	50	60 per week	90	5-30 per week
Type of clients	Public	Public	Public	Diversified	Diversified	Diversified
Their location	Department A	Department C	Department B	Department A	Department B	Department A
Marketing area	Department	Department	Department	Regional	Regional	Regional
Supplying area	Department	Department	Department	Regional	Regional	Regional
N of people in board	0	18	18	20	5 consultants	0
N of staff employed full time	0	2	1	3	2,85	12
Gross sales	Very low	Low	Low	High	High	Very high
Break-even point	they have none	far	far	yes	almost	yes

3. Empirical and theoretic considerations: towards analytical framework

3.1 Research of short food supply chains

Short Food Supply Chains (SFSC) face increased public interest and institutional support trying to enhance their development in recent years (Moustier and Loc, 2013; Renting, 2003; Marsden et al., 2000). The substantial progress has been made on SFCS empirical diversity, consumer's perceptions and willingness to pay as well as possible effects on well-being of farmers and farm labour. Empirically, SFSC such as on-farm sales or community supported agriculture and others have been already broadly studied (Kneafsey et al., 2013).

Nevertheless, the current SFSC literature has not yet paid much attention to the economic organization and governance of these SFSC (Tregear, 2011). We argue that, like for any forms of supply chains such as traditional ones, issues such as value creation and value sharing, allocation of decision rights over critical assets are cornerstones for their economic sustainability and possible scaling-up. Furthermore, these issues become even more critical in situations where these SFSC have a collective nature such as new forms called "the second generation SFSC" (Maye et al., 2013) that have not been broadly studied. These are enriched with new innovations due to technological progress and new forms.

3.2 Framework for governance analysis

Our description of the platforms' governance relies on Williamson's (1991) typology and framework. He provided a landmark contribution by disentangling alternative modes of governance based on different mechanisms such as incentive intensity, the level of administrative control and so on. We extend this framework with recent developments in organizational economics that are relevant to our empirical context. First, we borrow from contributions that emphasize the key role played by ownership allocation over assets to contrast alternative modes of organizations. Key contributions include work by Grossman and Hart (1986), Hansmann (1996). We also rely on recent developments that try to dig deeper in the governance of hybrid modes of organization (Ménard, 2004, Chaddad, 2012) as most of our cases are pretty good examples of hybrid

forms. Next, we also borrow from the literature on “members-controlled” organizations (such as producers’ cooperatives) in order to explicitly take into account the collective nature of many of our case studies (Pozzobon and Zylbersztajn, 2013). Finally, as collective organizations, platforms have to simultaneously govern not one but a portfolio of interrelated transactions. “Vertical transactions”, namely the transactions between the platforms and both their customers and suppliers has to be coordinated with the “horizontal” dimension of this collective venture (the interactions among platforms’ members). Therefore, additional analyses are needed to better understand collective governance structures (Raynaud and Sauvée, 2000).

4. Diversity of governance structures (biggest differences in 4 subclasses)

We observe the biggest differences of platforms’ governances between the on-line platform (A), platforms with on-going long term public support since their creation (B,C), platforms without support that had it in first 3 years after their creation (D,E) and the private platform (F).

On-line platform (A) is very close to market-like (Williamson, 1991) governance mechanism where supply and demand are mostly coordinated through price and quality signal with no or few administrative governances. Producers and clients separately negotiate and sign contracts for different products. Platforms only difference in comparison with spot market transactions is that it offers information on potential producers and clients which reduces searching costs for potential transactors. Departments’ sponsored platform does not take commission or search profits and therefore have no gross sales or break-even point. Because of recent creation in 2015, we will closely analyse its development in the future.

Initiatives with long term public support (B, C) are situated in less populated departments and have chosen the restrained area of their department to organize their activities, while other platforms (except A, B, C) have overcome potential issue of insufficient market potential by enlarging their activities to regional scale. The governance structure is primarily structured around board of platform that decide on major issues. Beside producers, local public authorities (like local chambers of agriculture) have included themselves in governing bodies as well as some other territorial actors that are interested in the platforms development because of their expected role to boost local agriculture. These 2 platforms have looser coordination with more reliance on public support as their managers are payed directly by public support and do not have necessarily the most suitable competences of managing. Those issues reflect interviews as stated by producers with lower implication of farmers in decision making and motivation for future cooperation. Both platforms are also struggling to become financially independent.

Initiatives with limited support in the beginning (D, E) tend to form a crucial stable base of producers that are leading the coordination and implication of farmers. Therefore, their motivation for cooperation is bigger. They have the central role in platforms’ boards and all the critical decisions. The functioning of platforms, rules and partner selection are more strictly controlled by managers and employees. Producers have stated a high degree of trust in platforms and managers’ actions which gives them certain degree of freedom. They have more commercially oriented strategies of managers and development which reflect in faster economic independence of those initiatives which have already or almost break-even.

Private platform (F) has tighter relationships with farmers which is formalized with contracts and strictly controlled by their employees. They have a big commercial power because of investment in staff. The governance structure is hierarchy like governance and is completely decided by manager/owner.

5. Conclusion and future considerations

The contribution of this paper is to give some insights about the diversity of governance modes in collective short food supply chains. We analysed 6 platforms supplying diversified

local produce to clients in semi-wholesale scale. We described their governance diversity using tools from the organizational economics which were already used in analysis of various agri-businesses, cooperatives and their vertical relations in supply chains but little has been done in terms of SFSC.

Platforms take different forms of governances like on-line platform which is comparable to market transaction and private platform that have some hierarchy-like elements of governance. In between we can observe hybrid forms of governance of platforms that can be affected by their public support or bigger producer's implication in governance structure. There are some potential signs that different governance structures affect platforms sustainability but it is difficult to draw definitive conclusions due to their recent creation.

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