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**Which collective organizational pattern for geographical indications
dominated by a leading processor?
Similarities between case-studies from Mongolia and Switzerland.**

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Which collective organizational pattern for geographical indications dominated by a leading processor?

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Sophie REVIRON, Enkh-Amgalan TSEELEI¹

1. Introduction

Geographical Indications (GI) are often analysed as a tool to protect names of artisan products with a strong link to a territory against industrial copies and usurpations. Besides this legal aspect, recent research conducted in European countries² has highlighted the ability of GI products to get positive territorial impacts. This is of great interest for developing countries. However this performance is not guaranteed by registration and depends strongly of the collective organisation that coordinates operators' activity.

This paper focuses on the choice of organisational pattern when a processor has a dominant market share in GI production, the other part being split between many small processors. What is the interest of the leading processor for joining a collective organisation with its competitors to pilot the geographical indication?

We compare two case-studies concerning very different products and very different countries, which present the same processors' market structure: the UVS Sea Buckthorn juice (Mongolia) and the Dried Meat of Valais (Switzerland). We intend to discuss if the Swiss experience could help the Mongolian processors, to anticipate the benefits and risks of collective action.

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² www.origin-food.org

In section 1, we highlight that collective organisation is a characteristic of GI systems, even if not explicit in the legal framework. Section 2 is dedicated to an analysis of the scientific literature about cooperation within networks, chains, and alliances. It is focused on the “horizontal” arrangements between competitors at the same level of the supply chain. Section 3 is dedicated to a short presentation of the two case-studies. Finally, in section 4, we will compare case-studies and discuss the lessons learnt from the theoretical conclusions that are verified and illustrated with the Swiss experience.

This research would have not been possible without the field work and projects being implemented by the Swiss Agency for Development and Cooperation (SDC) in western Mongolia.

2. Collective action, a major characteristic of GIs systems

Collective action is not an explicit condition for registering a GI. The Trips definition is as follows: “indications which identify a good as originating in the territory where a given quality, reputation or other characteristics of the good is essentially attributed to its geographical origin”. Only two conditions are explicitly required: (i) uniqueness and typicity linked to a territory; (ii) reputation of the product and name.

According to this definition and its translation in national laws, a single company alone is allowed to apply for registration. However, implementation in the field has shown that the registration process leads in almost all case-studies to the construction of a collective organization of operators. In the European regulation about Protected Designation of Origin Products (PDO) and Protected Geographical Indications (PGI), collective organization is de facto required, because the registration proposal must be presented by a “demanding group”.

In countries outside the EU, there are also strong pressures for building collective organizations. The GI system is characterized by a specific institutional frame that is necessary for its creation and functioning. This institutional framework is composed of three pillars: (i) the national law that defines the conditions for registering; (ii) the certification body that controls the respect of the code of practices; (iii) the external support, public and private, at the regional and national level.

With the exception of the certification body which may prefer to limit the number of producers/processors to control in order to lower costs, the two other pillars will advocate for collective organization to avoid favoritism and get positive effects on rural development, which supposes a critical size. However a GI organization is not created by external institutions but by operators that take the commercial risk. This begs the question of the attitude of a leading processor. Is there any interest for him to cooperate with (small) competitors?

The question of cooperation between competing companies is a core question for researchers. We are going to present a short review of the scientific literature on this topic in section 2.

3. Scientific literature regarding cooperation and competition

The question of cooperation between firms has been studied by various authors in Industrial Economics, in Management and in Institutional Economics. All insist on the existence of a set of agreements either horizontal (between competing companies in an industry) or vertical (between buyers and sellers). In this paper, we will focus on horizontal agreements regarding our research question.

We will begin by presenting the characteristics of this set of arrangements. Secondly, we will develop analysis regarding three issues: Why do partners join them? What are the expected benefits? And what are the risks?

The main characteristics of horizontal arrangements between companies

Researchers have different names for the set of arrangements between companies such as “coalitions” (Porter, 1985, p. 34) or “strategic alliances” (Dussauge & Garette, 1999). But they agree about their main characteristics: at least two firms cooperate for mutual benefit on a set of agreed upon common goals, and agree to share decision making power on these specific issues; but they remain independent companies.

Thorelli (1986) has applied to business activities the general concept of “networks” that refers to two or more organizations in long-term relationships. Network members are co-specialized, bringing a unique value adding capability, such as a knowledge resource or market access, to the network. The members include a subset of their activities within the network, but maintain their independence in other matters (Koya & Lewin 1999; Coleman, 1990). Researchers have studied networks and alliances from social perspectives and identified variables such as trust, power and influence, status and centrality (Powell, 1990).

New Institutional Economics is, at first view, more focused on vertical arrangements. Williamson (1985) was mostly interested by relationships between a buyer and a supplier and the three “governance structures” he defines - market, hybrid forms and hierarchy – clearly concern this bilateral vertical transaction. Nevertheless, more recently, we may observe an extension of the theory from vertical arrangements to horizontal ones. Ménard (2004) analyses various sets of arrangements in order to identify regularities in reasons for building “hybrid forms”. He includes in this review vertical arrangements,

such as subcontracting, but also horizontal ones, such as franchising, collective trademarks, partnerships, and alliances.

Strong similarities have been highlighted. Verhaegen & Van Huylenbroeck (2002) insist on the partial transfer of decisional power between seller and buyer to distinguish hybrid forms from market and firm governance. Ménard (2004) analyses various sets of arrangements in order to identify regularities in justification. He emphasizes regularities in the traits as identified in the abundant literature on these forms:

- **Pooling:** the arrangements are systematically oriented towards organizing activities through inter-firm coordination and cooperation, so that key investment decisions must be made jointly. Choosing partners, joint planning and partner-specific communication are key issues.
- **Contracting:** this problem is partially dealt with more or less formal contracts.
- **Competing:** partners to a hybrid agreement often compete against each other and they usually compete with other arrangements, including other hybrids. The mechanisms to design for delineating decisions to be shared, for disciplining partners, and for solving conflicts while preventing free-riding are a central issue.

Confronted with a high degree of uncertainty, a hybrid organization has to deal with major coordination issues: it must combine adaptation, in order to keep the flexibility to adjust; control in order to reduce discrepancies among inputs, outputs, or quality in the process itself; and safeguards, in order to prevent opportunistic behaviour that uncertainties make difficult to detect.

These different authors agree on the definition of these set of arrangements between competing companies. Partners include a part of their activities in the collective organisation, and accept the partial transfer their decisional power, but they maintain

independence and do not merge. We are now going to identify why they may decide to cooperate with competitors, which is obviously paradoxical.

Firms' motivations, benefits and risks when joining a horizontal arrangement

Cooperating with competitors is a crucial strategic decision for a company. It is obvious that it will join only if it is for its own benefit. We cannot think of altruistic reasons in a business context, therefore we present the reasons, benefits and risks to join that have been identified by researchers.

Porter (1985, p. 57) explains that through coalitions firms can pursue the benefits of a broader scope without expanding itself physically starting new industry segments or investing in geographic areas and related industries. Koza and Lewin (1999) suggest that firms deciding joining an alliance or a network have two generic strategies: "adaptation-exploitation" and "exploration". "Exploitation" refers to the elaboration and deepening of existing capabilities and to incremental improvements in efficiencies (economies of scale). "Exploration" refers to experimenting with or establishing new assets and capabilities. The strategic intent of exploration is the discovery of new opportunities, which may have dramatic effects on firm's performance (economies of scope).

According to Thorelli (1986), power is the central concept in network analysis. It is defined as the ability to influence the decisions or actions of others. But power should not be thought as unilateral but as interdependence. Powell (1990) highlights three critical factors: know how, demand for speed and trust. Trust may occur more often in certain social contexts that encourage cooperation and solidarity, or a sense of generalized reciprocity. Networks should be most common in work settings in which participants have some kind of common background, be it ethnic, geographical, ideological, or professional.

Porter and Fuller (1996) argue that partnerships and coalitions are a more of rapid means of repositioning than internal development and are less costly, less irreversible and more successful than mergers. Networks provide a context for learning by doing. As information passes through a network, it is both freer and richer, new connections and new meanings are generated, debated, and evaluated.

However, the company may decide at one time that the benefits it gets are not sufficient. There are risks linked to horizontal collective arrangements. Koya & Lewin (1999) have studied the case of the public accounting industry. The strategy to establish a network was based on earning incremental income, but it was found that the strategy has resulted in asymmetric positive returns to partners which motivated the partners to deviate from the original intent of network by entering each other's market. Such tensions may be endemic to alliance networks.

Ménard (2004) also highlights the specific risks of hybrid forms. Hybrid organizations develop because of the advantages partners find in linking some of their investments. In doing so, they accept mutual dependence. The more specific the mutual investments, the higher the risks of opportunistic behaviour and the tighter forms of control will be. Mechanisms chosen for monitoring the agreement, mechanisms that reserve the stability of the arrangement and the design of an adequate device for solving disputes contribute to shaping hybrid arrangements.

We are now going to present our case-studies, to see how theoretical results may help to understand the processors' strategic decision to join collective action.

4. Case-studies presentation

Our case-study comparison has two objectives: the first one is to see if the UVS sea buckthorn operators could benefit from the experience of a “similar” Swiss settled PGI organization in order to avoid risky intuitive trial and error procedures for choosing their organizational pattern. The second one is to explore if the case-studies confirm the theoretical results that we have developed in section 1 about horizontal arrangements. Case-study research is based on the idea that case-studies are experiments that allow researchers to test the theoretical results and to enrich them (Koza & Lewin, 1999; Yin, 2003).

According to these two objectives, we have adhered to the following selection process. We have selected case-studies that are clear horizontal arrangements. In parallel, we have checked that the case-studies fulfill the conditions to qualify as a GI as presented above. As a benchmark of UVS sea buckthorn, we have chosen the dried meat of Valais PGI because of a very similar market structure (a few leading processors with no direct links with producers).

We are now going to present our two case-studies according to the same template in order to allow us to make comparisons.

1-Uvs sea buckthorn juice/oil

Product characteristics

Mongolia is a landlocked country in the Central Asian plateau occupying a territory of 1.5 million km² bordering with Russia in the north and China in the south. The total population of Mongolia is only 2.5 million. The economy of the country depends largely on pastoral livestock keeping (cashmere goats, sheep, camels, yaks).

Uvs sea buckthorn juice and oil were registered as GI in 2007. They are traditional products in Mongolia which are acknowledged by consumers for their distinct image and quality that may be attributed to their geographic origin. Uvs province is a natural habitat for wild sea buckthorn in Mongolia. The province is located in the heart of Great Lake basin. With a less industrialized economy, it has maintained its pristine nature and clean ecological environment. Sea buckthorn is a highly nutritious and versatile berry, containing vitamins C, E, beta-carotene and omega-3 fatty acids, which is processed as juice. Oil, from the seeds, is very popular for medical use. The certification is presently made by the State Intellectual Property Office.

The uniqueness of these products is that they come from a local species of tree that is naturally occurring and the natural environment of the area which has an extremely harsh climate fluctuating between + 36° C in summer and – 57°C in winter. In order to resist this exceptionally high temperature oscillation, the fruit develop a higher content of oil in order to protect itself and also a high content of carotene and other biologically active substances. Uvs sea buckthorn produces oil from all its parts, seed, lash and shell thus it is known to have the highest content of oil.

Further developing sea buckthorn production could have very positive effects on the province, which justifies public support: income generation, better nutrition, less desertification and erosion.

Past and present organization

During the socialist time, there was one big state farm and one processing company. During the transition period to the market economy, the state farm was privatized and split into many small growers and the processing company was reorganized as a private shareholding company. At present, there are about 30 small and medium scale producers

with plots ranging from 0.1 ha to 300 ha and three local processing companies, among them a big one. The former state processing company has been privatized and has the largest processing capacity. It will be fully operational in 2008. It plans to produce 2/3 of its fruit supply in 2009 in its owned plantations.

Currently, Uvs producers supply 60% of the total sea buckthorn products in Mongolia. Because there is a growing demand for sea-buckthorn in the domestic market as well as increasing interest from foreign buyers, mainly Japanese, in Uvs sea-buckthorn, plantation is expanding very fast to 550 tons of berries (expected 2009).

In 2003, the Sea Buckthorn Growers Association was established and half of the producers and processors are members of the association. The question is now for the processors to agree on its missions.

1- The dried meat of Valais PGI

Product characteristics

Switzerland is a small mainly mountainous country. Agriculture faces very high costs, due to very small structures and high labor costs. The regulation about PDO-PGI products is recent (first registration in 2000) and at the present time 26 products have been registered, a large majority of these from the French speaking part of Switzerland, in mountain areas. Consumer response to most of these products is good, in part due to the strong emotional connection between the consumer and the countryside and mountain lifestyle.

It is a naturally dried specific cut of bovine meat (the code of practices specifies the specific parts of the leg that may be used) processed in the Valais “canton”, a

mountainous and sunny region of Switzerland. When completely processed, it contains 40g of proteins and only 5g of fat per 100g.

The dried meat of Valais was registered as PGI in 2002. A “demanding group” (The Valais Butcher’s Association) applied for registration. The main objective was to increase the product’s recognition by consumers and to better control quality with certification by an external body. A specific association was constituted in 2002. The Inter-cantonal Association for Certification (OIC) is in charge of product certification. Concerning the dried meat of Valais, controls are composed of blind tests and chemical lab analysis (content in proteins and water residues). The Valais region has a very ambitious policy in favor of local food products with wines, cheeses, bread, fruits.... The association benefits from the regional budget for collective promotion.

Past and present organization

Production is stable in volume around 250 t of dried meat. Two leading processors, Chermignon SA and Fleury SA produce 70% of total dried meat production in the region. The actual PGI organization is a professional association with a light coordination role (according to Réviron & Chappuis, to appear 2008). The professional association is composed of 30 processors from one level of the supply chain. It is piloted by a delegates’ assembly and a board, helped by a part time facilitator paid by the Chamber of Agriculture. The coordination is focused on quality issues and code of practices operation, with strong linkages to the certification body. Marketing issues are not delegated to the collective organization by partners, who prefer to handle it individually (often the case of established firms with strong trademarks). The association is in charge of collective promotion.

Producers are not members of the organization, because processors need very specific cuts of high quality bovine meat that they buy from butchers. There are no direct commercial links between producers and processors.

The question is now to identify, using the theoretical results and the Swiss experience, the benefits for UVs Cie to join the association and cooperate with its small producers.

5. Discussion

We will organize the discussion in three parts: firstly, we will highlight similarities and differences between the two case-studies. Secondly, we will see that how theoretical results may enrich case-study analysis..

Case studies comparison: similarities and difference

There are important similarities between the two case studies; they are both genuine GIs. In terms of market structure in both cases there are one or two leading processors alongside a number of small scale processors.

Another similarity between the two case-studies is the fact that the links with producers are very loose. The partners are processors at the same level of the supply chain. There are differences, however, as Uvs Company alongside being a leading processor produces a large share of sea buckthorn berries within its own plantations (vertical integration). Dried meat processors, on the other hand, buy raw materials from the open market. Another difference is that the Dried Meat of Valais has already obtained GI for many years, whereas Uvs sea-buckthorn has just been registered in 2007. Nevertheless, these differences do not decrease the relevance for Uvs operators and facilitators of the lessons regarding collective action to be drawn from the Swiss case-study.

Testing theoretical results

In Mongolia and in Switzerland, the leading processors have played a major role in establishing the collective organization and agreed to pay the greatest share of the cost of running the organization. The main motivation is to exercise control over the quality of the product through an agreement to follow a common code of practice. Both leading processors in Uvs sea-buckthorn and The Dried Meat of Valais decided to cooperate with their competitors through joining a collective organization for the purpose of maintaining the quality, and thus, the good reputation of the product for their mutual benefit. The collective organization's members have remained independent companies, but agree to share their decision making power on certain issues, specifically to follow a common code of practices. "Pooling" resources, "contracting" with a common code of practices and certification, and "competing" in the market (according to Ménard's approach – see section 2) are effectively major characteristics of the arrangement.

The second motivation is fighting against usurpations and copies. When product recognition increases, competitors that are not within the geographical limits and /or do not respect the quality code of practices may be tempted to copy the GI product and jeopardize its image in the market place. One company alone has less power than an association for leading law suits and finding help from external institutions. There is an economy of scale that provides processors services and expertise for market "exploitation" that they could not afford separately.

Another motivation is to increase product recognition among consumers, especially outside the region. "Exploration" (as defined by Koza & Lewin – see section 2) is very

profitable for the leading companies because they have the size and production potential for increasing sales and negotiating with big retailers outside the region.

Joining a collective organization creates an important input into cluster formation so that processors have a common agenda. Belonging to the same region creates very specific social links that help to create a common spirit and goals for rural development (as observed by Powell, 1990).

Nevertheless, when the benefits from the collective actions are perceived to be less than the cost of the fees, the leading companies or partners may contest their contribution and even leave the association (as observed by Koza & Lewin, 1999 – see section 2). The leading companies may be more interested in increasing consumer recognition of their trademarks rather than the GI. The impact of collective promotion is particularly difficult to measure and the question is “who gets the most benefits from collective organization?” When the market is mature or even decreasing, competition becomes harsher and leading companies are often tempted to be self reliant, and take back home their financial resources for marketing research and promotion.

The members of The Dried Meat of Valais PGI Association are presently discussing the goals of their association and reorienting the use of financial resources to better take in to account changes in the market (Reviron, 2008).

6. Conclusion

In this paper, we have shown that the theoretical results about horizontal arrangements are very powerful to explain why a leading company decides to join a GI collective organisation and may later think about leaving. We may conclude there is often interest

from a leading processor to join collective organization, but it has to be prepared carefully.

On a methodological point of view, we observe that the case-study analysis is enriched by mobilizing results from economic theory, and, in return, validates and confirms the theoretical approach.

These regularities authorize us to benchmark GIs organisations dealing with very different products in very different parts of the world. The Swiss experience may help the UVs sea buckthorn to identify the benefits and risks of joining, and to anticipate possible conflicts. Potential benefits come from common “exploitation” (economy of scale) and common “exploration” (economies of scope). But shared decisions should be delineated with care in order to avoid conflicts of interest between the GI and the leaders’ trademarks, because competition is maintained.

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