How to Improve Wine Quality? The Challenge facing South African Cooperatives
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Abstract

Still today the vast majority of South African wine is produced by wine cooperatives or former cooperatives which still adhere to the cooperative principles. These principles can be delineated by the identity of users and owners, the democratic principle of voting and the non-existing of barriers of entry. Additionally, the legally manifested business aim to nurture their members can be seen as a further characteristic. Traditionally, the aim to establish countervailing power has been regarded as the most important duty of a co-operative. Other business aims like correcting market failure, guaranteeing markets and enhancing margins can be seen as levers to operationalize the main business aim.

By using a property right approach Cook (1995) pointed out five general sets of problems: Free Riding Problems, Horizon Problems, Portfolio Problems, Control Problems and Influence Cost Problems. Using a principal-agent approach and the concepts of opportunistic behavior, conflicts of interest, asymmetric information and stochastic conditions Eilers/Hanf (1999) show that it is not clear who is the principal and who is the agent, i.e. both the co-operatives and the members can be principals and agents. For this reason, neither leadership mechanisms nor selective terms of delivery can be enforced by the co-operatives, i.e. the members can deliver all the commodities which alternative dealers do not accept. Cooperatives being forced to accept these commodities face the problem of adverse selection. In this context the aim of our paper is to analyse whether these problems exist at South African wine cooperatives and if they exist we try to work out some solutions applying a case study approach.