
ALTERNATIVE GOVERNANCE AND CONTRACTUAL MODELS IN LOCAL FOOD SYSTEMS

FABIO CHADDAD

University of Missouri, Columbia, MO 65211-6200
chaddadf@missouri.edu

SYLVAIN LEMEILLEUR

CIRAD, UMR MOISA, Montpellier F-34398
Sylvaine.lemeilleur@cirad.fr

Abstract

As a response to agrifood chain globalization and fostered by consumer demand for sustainable and ethical food products, new distribution models for local food products have emerged in recent years. This paper investigates the organizational and contractual characteristics of short supply chains from a transaction cost economic perspective. These new distribution models raise an important research question: what forms of commitments encourage small local producers to supply a short food supply chain? By means of in-depth case studies and surveys of local food system participants, we collect detailed information about these alternative organizational arrangements, including ownership structure, governance practices and the nature of contractual relationships between supply chain participants. We focus on enforcement mechanisms and contractual commitments observed in local food systems to reduce transaction costs and ameliorate the hold-up problem from the producer point of view. In doing so, we will better understand how producers benefit from these local food arrangements and their incentives to shift from traditional to local supply chains.

Key words: *governance structure, contracts, hybrids, local food systems, short supply chains*

ALTERNATIVE GOVERNANCE AND CONTRACTUAL MODELS IN LOCAL FOOD SYSTEMS

1 Introduction

In reaction to the globalization of agricultural world trade and given the growing interest of consumers for ethical and sustainable products, new marketing arrangements of local food have been developed. This movement fostered the development of short food supply chains (SFSC), which include a large number of initiatives that, with different levels of coordination and alternative governance structures, are involved in the creation and development of networks of local producers¹.

In recent years, the development of these short supply chains has been the object of several research projects. For the most part, these studies rely upon a sociological or geographical approach (i.e. the literature review by Deverre and Lamine, 2010) or, more recently, on the management literature, with the analysis of supply chain management and coordination of these short chains or food hubs (Messmer, 2013; USDA, 2012). Surprisingly, the topic has received little attention among economists. Thereby, even though existing work identifies some of the factors influencing the emergence of these alternative food systems, the economic dynamics underlying the choice of actors is often overlooked. This paper addresses a key issue in the analysis of the development of local agriculture: *what forms of commitments encourage small local producers to supply a short food supply chain?*

Indeed, these initiatives are underpinned by both informal and formal commitments between consumers and producers which have to be better understood. The few economic studies found in the literature on the subject focus on consumer preferences and their propensity to pay or be a patron of a SFSC given the existence of information asymmetry in contracts (Bougherara et al., 2009). We present an analysis which departs from the point of view of producers. Our focus is on producer investments made to meet the new consumer demands, as well as the way the contractual arrangements are protected against the hazards of opportunism. The challenge is to better understand the mechanisms that guarantee both coordination and cooperation among agents and thus to understand the ability of producers to benefit from the new opportunities offered by a SFSC.

In the next section, we develop an analytical framework and a set of theoretical propositions based on the New Institutional Economics (NIE). In the third part of this study, the empirical choice behind the analysis is justified; we also present the method used here. The fourth section presents the preliminary results of the research. Finally, we conclude with some empirical observations.

¹ These short supply chains differ from traditional, mainstream chains in that producers have a direct contractual relationship with consumers – i.e., there are no supply chain intermediaries. In addition, they adopt more decentralized, participatory governance structures than traditional chains, often characterized by the presence of a chain leader or coordinator. These short supply chains are known in the U.S. as local or regional food hubs (USDA, 2012). In France, an official definition has been done by the Ministry of Agriculture in 2009, short supply chain include to the maximum one intermediary.

2 Literature review

Resolving information asymmetry associated with credence goods

The increasing interest and attention paid by consumers on the production, distribution and consumption aspects related to sustainable development criteria – which might refer to the environment, to principles of fairness or cooperation, to the maintenance of smallholder agriculture and employment in rural areas, or to food quality and origin – reflects the growing interweaving of social and environmental issues in the food sector. Yet in the case of quality in the sustainable production of agricultural goods, information problems are particularly important, leading to a process of certification that converts these goods from ‘credence goods’ to ‘research goods’ (Caswell, 1998; Lizzeri, 1999; Grolleau and Caswell, 2007) or to the emergence of new local forms of organization that allow better observation of production and distribution methods, reducing information asymmetries through direct consumer verification (O’Hara and Stagl, 2001).

Here we focus on the second solution revolving around the emergence of short food supply chains (SFSC). The various organizations that participate in these networks are tied together by hybrid arrangements between market and hierarchy (Williamson, 1991; Ménard, 2004). Examples of such hybrid governance structures include public entities (such as farmer’s markets) but primarily private structures ranging from informal networks, buyer’s groups and community supported agriculture (CSA), to limited liability corporations (LLCs) and producer, consumer and multistakeholder cooperatives. The diversity of these forms of governance is partly due to the several possible combinations of execution and enforcement of contracts. For our analysis, we rely on an approach based on the New Institutional Economics (NIE). Apparently a somewhat unsophisticated set of tools to understand the complex interactions in a SFSC, the NIE has the merit of allowing a detailed analysis of its execution mechanisms.

The New Institutional Economics and the identification of the risk of hold-up

Williamson’s transaction costs theory postulates that the presence of specific assets in the transaction, its frequency and its level of uncertainty explain for the most part the form of governance chosen by the agents. Barzel’s transaction costs theory, in turn, predicts an alignment in the forms of governance based on the difficulties in measuring quality and therefore on the informational asymmetry concerning the quality of a good being transacted.

We assume that Williamson’s approach is more suitable to explain why producers choose a specific contractual form observed in a SFSC. Indeed, when specific assets are involved and uncertainty is high, the costs of contract renegotiation increase and the inherent risk of hold-up is more important than the problems of information asymmetry on quality given the contractual arrangements chosen. Likewise, the choice of a specific contractual form in a hybrid arrangement presupposes the existence of a governance structure that, among other functions, deals with adaptation issues related to quantity, quality and price variability among participating producers (Ménard, 2004).

The risk of hold-up appears in a transaction in which one of the parties – the buyer, for example – might expropriate *ex-post* the return on investment by the party that invested in specific assets – in our example, the producer. This happens because the investment is not redeployable to another transaction or the return on the investment is less in another transaction undertaken by the producer. In other words, the investment is said to be specific to the relationship with the buyer. Once the investment is made by the producer, the consumer has the *ex post* incentive to renegotiate the contract and may decide to offer a lower price. Thus there are renegotiation costs, not to say the potential break of the commitment, engendered by the possible opportunistic behavior of the agents. On account of this possibility, the producer may decide not to invest in relationship-specific assets or practices thereby foregoing to opportunity to engage with a SFSC.

The degree of assets specificity and the amount invested positively influences the likelihood of hold-up due to the increased quasi-rent and engenders a higher probability of opportunistic behavior (Masten and Saussier, 2000). Extreme risk of hold-up is more likely when the contract is only informal and therefore potentially more uncertain and difficult to enforce (Hart and Moore, 1988). The existence of strong social ties among producers and consumers in many SFSC does not exclude this possibility, since the direct interaction between producers and consumers does not eliminate the occurrence of calculative behavior (Hinrichs, 2000). As a consequence of the risk of hold-up, the inexistence of a mechanism to safeguard the transaction leads to underinvestment in relationship-specific assets or practices (Hart and Moore, 1988).

Specific investments are generally defined as the investment in specific assets. However, some authors admit that specific practices, which may be subcontracted, or any effort level by the producer to adapt her supply to the specific needs of his customers, may also be included in the category of specific investment that can be held up (Shelanski and Klein, 1995; Che and Sákovics, 2004). Indeed, the adoption of such specific practices involves a cost, since the return on the effort can be lost in the short or medium term. Later, specific practices by producers that result in higher surplus for a particular transaction in comparison with the alternative options will be considered as a potential source of hold-up at least in the short term.

Different ways of mitigating the risk of hold-up

The literature identifies a range of interchangeable or complementary contractual and governance mechanisms that address the hold-up problem and reduce *ex post* transaction costs (see Ménard and Shirley, 2005 for an example). The effectiveness of these enforcement mechanisms depend on the existence of governance structures that support the relationship regulated by the contract. Of course, the nature of the interaction among economic agents can vary considerably, given the characteristics of the transaction; consequently, when it comes to governance structures, diversity is the rule (Williamson, 1991; Coase, 1991; Ménard, 2004).

Therefore, as an answer to the hold-up problem, an alignment between governance structures and execution mechanisms is expected (Ménard, 1996; 2004; Williamson, 1991). In the case of SFSC, at least two sources of institutional diversity exist. First of all, governing the direct relationship among consumers and producers, a set of contracts establishes the basic rules for

interaction. According to Ménard (2004), these contracts will possibly be standardized given the characteristics of the transaction at stake. In other words, a certain SFSC system – a set of buying groups, for example – should have similar contracts governing its transactions. The reason why convergence would be expected is straightforward: although contracts offer a valuable framework that reduces uncertainty, the most complex characteristics of the exchange are not expressed in their clauses, due to the high costs derived from this activity.

The second source of institutional diversity comes from the existence of multiple governance mechanisms. Here differences are expected not only among different forms but also inside each group. Various reasons explain the pervasiveness of diversity in this level of analysis. First of all, the path towards the establishment of each organization may be different; variables such as leadership, the presence of social ties and the existence of previous mechanisms of coordination influence the governance characteristics designed by each initiative. Secondly, the number of participants is one of the factors that determine the risk of opportunistic behavior (Olson, 1965), and consequently the need for more complex coercion or coordination mechanisms. In summary, we may observe different hybrid structures acting in the same market with different characteristics (Ménard, 1996).

Due to the complexity inherent in studying institutional diversity, we first focus our attention on the characteristics of the contracts which frame the relationship between consumers and producers in a SFSC. In this sense, it is important to scrutinize the options at hand for the parties in this market. More specifically, the parties can devise *formal contracts*, which open room for litigation whenever their terms are not respected. In this case, political institutions have a major role in reducing the transaction costs of securing property rights and improving the performance of contracts (North, 1997). Although very few conflicts are effectively settled in court, the credibility and effectiveness of the legal system decrease the likelihood of opportunistic behavior by agents – since there is a credible threat – and improve in parallel the effectiveness of other forms of enforcement mechanisms (Ménard and Shirley, 2005).

While formal mechanisms are often expensive, they are commonly accompanied by other types of informal or tacit execution mechanisms (McMillan and Woodruff, 2002). It is possible to regroup the informal execution mechanisms in two major categories. First, there are mechanisms related to *reputation* and *social sanction*, such as ostracism. A deviant behavior may affect the existence of future transactions with other potential trade partners. If the size of the group of interacting agents is limited, their relationship is personalized, the diffusion of information occurs at lower cost and the administration of sanctions is decentralized – the agents apply them (Greif, 1994). In turn, if the group is large, relationships are impersonal and require the establishment of private ordering institutions to obtain information about a deviation and spread it among the members of the organization (Milgrom and Roberts, 1990).

Second, self-enforcing contracts – ‘self-enforcement’ – in the sense that they induce mutual consent of the parties and, unlike other mechanisms, do not involve a third party, also exist. In case one of the parties deviates from the original agreement, the sole remedy shall be the termination of the contract (Klein and Leffler, 1981). This often means that the environment is relatively stable – low uncertainty – not to say the contracts are complete (Williamson, 1991; Ménard, 2000). These mechanisms of bilateral sanction are more effective if the

October 07-08th, 2013

Center for Organization Studies (CORS)

USP (University of São Paulo); FGV (Getúlio Vargas Foundation); Insper (Institute of Education and Research);
UFBA (Federal University of Bahia); UFRJ (Federal University of Rio de Janeiro) and UFSCar (São Carlos
Federal University)

frequency of exchanges is high. Indeed, both the high probability of renewing the exchange and comparative gains from cooperation explain the interest of agents to remain in the relationship. In addition, repeated exchanges allow the parties to gather more information about the transaction and their trading partners, as well as potential adjustments or how to make them (Ménard, 2000). These mechanisms of disclosure of information may lead to the building of confidence among the parties (Brousseau, 2000).

The mechanisms of self-enforcement can also be supported by *hostages* or the *transfer of investments*, creating incentives for both parties to abide by the contract especially when specific assets are included in the transaction (Klein and Leffler, 1981; Williamson, 1985). These systems that bind both parties through mutual consent create a strong incentive to maintain the relationship and thus limit opportunistic behavior.

Finally, the literature in experimental economics demonstrates the importance of *personal interaction* to solve problems of cooperation (Bechetti et al. 2010). Existing research on this subject speak of so-called ‘relational goods’. When social distance is reduced through the voluntary removal of anonymity, experimental evidence shows a reduction of opportunism in transactions. The hope of mutual cooperation – and thus of indulgence or forbearance of one of the agents during the process of renegotiation – is increased by the empathy generated by personal interaction.

3. Empirical motivation and methodology

Risk of hold-up in short food supply chains (SFSC)

According to the definition of an economic situation of hold-up, two agents such as a consumer looking for specific products – local, traditional, sustainable or certified products, for example – and a farmer able to produce these specific products may not reach an agreement, even if the general outcome would be beneficial to both. Therefore, it is important to understand: what are the current contractual practices among local farmers and consumers of SFSC? How do these practices allow producers to hedge against the risk of hold-up?

The problem of hold-up may appear particularly severe in the case of SFSC, in that these chains are mainly present in the sector of perishable commodities – vegetables, fruits, dairy products, eggs, meat –, generating strong uncertainty about other transactions. In particular, we speak of temporal specificity (Brousseau and Codron, 1998). Moreover, beyond the respect for basic commercial commitments – time commitment, volumes, prices, etc. –, the SFSC often require producers to meet specific criteria on their farm products. For example, consumers may demand specific varieties of vegetables, often produced with agro-ecological practices (that may not be certified). In some cases involving an Community-supported agriculture (or “Association pour le maintien d'une agriculture paysanne” in France)², producers are required to sign a contract of exclusivity to ensure that the best products are

² Community-supported agriculture (CSA) or Association pour le maintien d'une agriculture paysanne (AMAP) refers to an association of consumers who have pledged to support one local farm, sharing the risks and benefits of food production. The association members pay at the onset of the production season and once harvesting begins, they receive weekly shares of vegetables and fruit.

being sold through this channel. This leads to high level of producer dependence on consumers in the AMAP. The volume of vegetables produced weekly requires horizontal coordination (e.g. crop planning) and often requires training for beginning farmers. Finally, the working time can increase significantly depending on the producer (Verhaegen and Van Huylenbroeck, 2001), especially due to the extra work required to prepare order deliveries and distribute them to consumers. All these required changes can be considered ‘switching costs’ for the producer that chooses to exit the traditional market to participate in quality-oriented chains (Verhaegen and Van Huylenbroeck, 2001). In return, the producer expects a more or less binding commitment from consumers. These conditions, which can be interpreted in terms of specific practices, lead to mutual dependence among actors and generate coordination challenges and cooperation problems related to the risk of hold-up.

Finally, it is important to note that for consumers it can be difficult to verify compliance with the producers’ commitments. While some contracts involve sharing the risk associated with natural hazards that affect production – through prepayments, subscriptions or even orders – it is often hard to discover whether the loss of volume or product quality delivered to consumers is due to negligence, cheating or because the producer really experienced a natural hazard. High consumer turnover in these SFSCs can be partly explained by mistrust related to unforeseen product quality and quantity variability.

In the fruit and vegetable sector, in which crafting complete formal contracts is expensive – given the frequency of exchanges in a uncertain environment and the costs of appealing to the court – we seek to understand and describe the mechanisms of control put in place by the parties to protect themselves from the risk of hold-up. The resolution of these issues is essential to allow these supply chains to be developed locally.

Research methodology

Our propositions for the case of SFSCs are tested in the region of Languedoc-Roussillon in southern France. In this region, small farms remain very numerous – Languedoc-Roussillon is second nationally for the proportion of small farms. About 20% of the Languedoc-Roussillon’s farms sell their production in short circuits. This market diversification is especially important for the farms specialized in horticulture and gardening, since half of these farms markets its production through short circuits.

The survey was conducted during the months of February to May of 2013. The goal was to investigate the agents who participate in SFSC in the studied area, documenting various types of contractual arrangements and informal commitments among these producers and local consumers. The data collected relate to economic and non-economic incentives – such as income, production costs, certification costs, risk management of production and marketing, stability of interactions, trust, quality of work, etc. – to producers to participate in these short chains in comparison with more traditional distribution channels – supermarkets, wholesalers, etc. – and how both circuits can be complementary.

Producers involved in these initiatives generally belong to a geographical area close enough to the place of marketing, offering fresh seasonal or farm processed products. Local varieties are preferred, given their resistance and adaptation to the soil type. Although the mode of

October 07-08th, 2013

Center for Organization Studies (CORS)

USP (University of São Paulo); FGV (Getúlio Vargas Foundation); Insper (Institute of Education and Research); UFBA (Federal University of Bahia); UFRJ (Federal University of Rio de Janeiro) and UFSCar (São Carlos Federal University)

production does not necessarily imply the official label ‘organic’ or a set of predefined procedures, environmental and social criteria demanded by consumers are usually required. For their part, consumers are more or less formally committed to maintaining their purchasing loyalty to the producers and accepting more or less strong constraints on the payment, delivery and the very nature of the products, which depend on the season and the climate.

In order to avoid bias caused by specific practices related to the differences among products, the SFSC involved at least in part in the production of fresh products were selected. Indeed, even in a small scale, there are groups focused in buying only dry products, practice that reduces uncertainty due to the stability of their quality over time.

4 Results

With the exception of public or collective outlets – such as farmer’s markets and local farmer’s shops – whose participation agreement is horizontal among the same actors, the results put in evidence the existence of a wide diversity of commitments among the consumers and producers of the SFSC about its duration or timing, which can be written or oral, explicit or implicit. We identify two main organizational types: AMAPs or similar structures – that is, organized through a formal contract with regular purchases over a given period of time – and buying groups, which may be formally established or not, with local or national operating procedures. For example, the group ‘*la ruche qui dit oui*’ has national rules.

Inside these organizational types, we identify various combinations of more or less explicit mechanisms for contract execution, designed in order to avoid costly renegotiation or the rupture of the relationship. We propose to classify a number of patterns arising from our empirical observation in the form of a typology based on the ‘completeness’ and the mechanisms identified in the literature.

Formal contracts and the duration of the commitment

In general, the AMAPs are organized around written contracts for a period of 6 to 12 months. The purchase of baskets of fresh products is made on a weekly basis, but a growing number of contracts are incorporating a mechanism through which the consumers, given previous notice, can skip some weeks – two to four, depending on the contract – without ordering. One of the respondent AMAPs has raised the possibility of making two-year contracts in order to enable consumers to be more active in the choice of products and varieties inside baskets. Indeed, the seeds and plants used by producers are often bought almost a year before the fruits and vegetables are harvested. Not rarely decisions must be made well in advance in comparison with traditional contracts.

In the case of the AMAPs and their variants, transactions occur weekly, but the semi-annual or annual commitment prevents renegotiation before the contract ends. Given the scale of operation, the production time and the ‘switching costs’ involved, these periods of renegotiation are relatively short.

In the buying groups, contracts among consumers and producers are seldom observed. A written contract may exist among the producers and the association that congregates the buying group. These are generally valid for one year and tacitly renewed. These contracts formalize the relationship. The contracts among the association and the consumers rarely go beyond a non-binding membership, since there is no minimum amount for individual purchases. However, we found a case in which the consumers have the option to acquire a membership card valid for one year with a number of prepaid baskets. The payment here is made to the association, which makes the investments in infrastructure – the maintenance of a place, electricity, refrigeration, etc. – and not to the producer.

In the case of the buying groups, transactions are random – weekly, monthly or annual. Finally, renegotiation can take place at the end of each transaction by the consumer.

Degree of dependence of producers from the SFSC

In the AMAPs, exclusivity clauses are included in the contract to restrict the producer from selling on the market his best products. However, sometimes the producer can sell her production to other AMAPs or this exclusivity is not required.

In buying groups, with no formal commitment binding consumers, there is also no contract of exclusivity for producers. Thus the dependence level of the producer is linked to his choices of distribution channel, which can result in different levels of specialization. Farmers often sell their production directly to the market, in order to deal with the variability in the amount of weekly orders from the association.

Renegotiation clauses in the event of voluntary or involuntary deviation by the producer

In an AMAP, according to the terms of the contract, consumers are supposed to share the risk with producers on production and harvesting whenever a natural hazard – such as pests or extreme climate events – occurs. There is a potential moral hazard problem here, since consumers are not able to verify whether the lower volume or quality results from negligence or cheating or, instead, from a natural hazard.

In fact, the terms are rarely explicit in the contracts and the control of moral hazard is not clearly defined. Our research suggests that the rules remain largely implicit. Some producers may decide to compensate crop loss by purchasing elsewhere – less than 20% – in order to complete the baskets in time; while others refuse to buy elsewhere, trying to compensate the lack of products in one period with the delivery of larger amounts in a more favorable subsequent period.

In buying groups, these clauses are not explicit. However, the voluntary or involuntary deviation by the producer may also occur, since the orders are completed several days before distribution. In this case, compensation is not possible given that consumers do not purchase regularly. Producers can decide to cancel the distribution of the baskets, reimbursing the consumer in the case of advanced payment. For example, under the 'la ruche qui dit oui' system, orders and payments are made through the internet. Alternatively, the producer can

complete the baskets with external purchases, a strategy preferred by some producers who are afraid of losing their clients.

Informal enforcement mechanisms in the contractual arrangements

In the associations, buying groups or AMAPs, reputational mechanisms and ostracism are more or less important, depending on the strength of the ties that connect the group. In general, the association guarantees contract enforcement for consumers. In other words, it may decide to exclude a consumer in case of a problem. Moreover, the AMAPs have long known waiting lists of consumers that allow a rapid rotation if a consumer is excluded from the association. These lists have tended to shrink everywhere, thanks to the creation of new AMAPs or to the high turnover of consumers, significantly reducing the waiting period.

Concerning the mechanisms of self-enforcement, consumers tend to prefer a stable supply source, avoiding the transaction costs related to research and renegotiation of contracts. The location of distribution also plays a role in contract self-enforcement. Finally, there is little competition among the AMAPs, given locational and temporal specificities. This reality reduces the risk of renegotiation for the producer.

Hostage systems are often adopted through either prepayment with checks received at the beginning of each contract or over the contract period or a mandatory subscription specifying the number of baskets delivered per year. Membership in buying groups can also be a form of hostage – although this commitment is relative – retaining consumers. Finally, both types of organization may demand support to the farm from the consumers, which can be considered an investment that reduces opportunistic behavior. Indeed, the literature on transaction costs and incomplete contracts (Aghion et al. 1994; DeJafra 1999) shows that systems that link the two parties before renegotiation create a strong incentive for the maintenance of the relationship over time, reducing the risk of hold-up.

In addition, there are relevant mechanisms based on personal relationships with producers, which create ‘relational goods’ (Uhlener, 1989; Gui, 2000). These mechanisms, although mostly informal, are strongly encouraged. Examples include farm visits, mutual aid, more or less frequent coordination meetings or the presence of the producer at the point of distribution. The survey shows that these mechanisms, which are not generally employed, allow ‘friendly’ renegotiations in a context of uncertainty – compensation in case of crop loss or lower quality – generating less haggling and transaction costs. These mechanisms, specific to decentralized marketing, are as effective as the other mechanisms described earlier (Becchetti et al.; 2010), allowing producers to ensure a better coordination and the cooperation with consumers. They also result in lower levels of underinvestment in the SFSC.

5 Conclusions

Our initial investigation suggests that there is a great variability in the pattern of commitment in the SFSC and in the use of contractual enforcement mechanisms. Consequently, a wide variability in the level of investment from producers that participate in these chains is expected. More specifically, it would be easier for a producer to enter in a buying group – less dependence, more flexible contracts –, including institutionalized systems such as the ‘*la*

October 07-08th, 2013

Center for Organization Studies (CORS)

USP (University of São Paulo); FGV (Getúlio Vargas Foundation); Insper (Institute of Education and Research); UFBA (Federal University of Bahia); UFRJ (Federal University of Rio de Janeiro) and UFSCar (São Carlos Federal University)

ruche qui dit oui'. However, less protection by enforcement mechanisms also means that producers are less likely to engage in specific practices such as preparing baskets, investing in a range of products that sell less in traditional market channels and other forms of relationship-specific investment.

It is interesting to note that, among the enforcement mechanisms used, personal interaction, even though not always implemented, appears to be particularly important in the case of SFSCs. Likewise, credibility and the effectiveness of the legal system are variables that decrease the likelihood of opportunistic behavior by the agents. Although formal appeals are very rare, the fact that producers can allow – and sometimes insist on – visits from consumers leads to an increase of credibility of the commitment and, therefore, also increases the likelihood of cooperation. It is true even in a reality in which both farm visits are not so common and the median consumer does not have sufficient expertise to check or control production practices on the farm. Bougherara et al. (2009) highlight the lack of research analyzing whether the participation of a farm in a SFSC leads to higher compliance. Some studies have already called attention to the role of quality labels with third-party certification that ensures the adoption of 'good' practices in these SFSCs.

In conclusion, the exploratory nature of this work determines its main goal, which is to point out the main governance features of the SFSC; however, subsequent refinements are necessary. Describing the contracts that exist in these circuits and demonstrating the consistency of the typology presented above are main contributions of this paper. This approach presents not only an alternative, but also complements the studies that have been developed so far on the topic, leading to a new understanding of the governance practices adopted by the participants of the solidarity economy schemes embedded in the SFSC. The availability of primary empirical evidence that could enable a quantitative analysis of the typology presented here is a factor that would strengthen the explanatory power of this article.

References

- Aghion, P., Dewatripont, M. and Rey, P., 1994. Renegotiation design with unverifiable information. *Econometrica: Journal of the Econometric Society*: 257-282.
- Becchetti, L., Degli Antoni, G. and Faillo, M., 2010. Let's meet up! The role of relational goods in promoting cooperation. *Journal of Socio-Economics*, **39**(6): 661-669.
- Bougherara, D., Grolleau, G. and Mzoughi, N., 2009. Buy local, pollute less: What drives households to join a community supported farm? *Ecological Economics*, **68**(5): 1488-1495.
- Brousseau, E., 2000. Confiance ou contrat, confiance et contrat. In: F. Aubert and J.P. Sylvestre (Editors), *Confiance et rationalité*. INRA Edition, Dijon, France.
- Brousseau, E. and Codron, J.-M., 1998. La complémentarité entre formes de gouvernance. *Economie Rurale*, **245**(1): 75-83.
- Caswell, J., 1998. How labeling of safety and process attributes affects markets for food. *Agricultural and Resource Economics Review*, **27**(2): 151-158.
- Che, Y. and Sákovics, J., 2004. *Contractual remedies to the holdup problem: a dynamic perspective social systems*, Research Institute, University of Wisconsin.
- Coase, Ronald, 1991. The institutional structure of production. *Nobel Lectures: Lecture to the memory of Alfred Nobel*.
- DeFraja, G., 1999. After you Sir. Hold-up, direct externalities, and sequential investment.

October 07-08th, 2013

Center for Organization Studies (CORS)

USP (University of São Paulo); FGV (Getúlio Vargas Foundation); Insper (Institute of Education and Research); UFBA (Federal University of Bahia); UFRJ (Federal University of Rio de Janeiro) and UFSCar (São Carlos Federal University)

Games and Economic Behavior, **26**(1): 22-39.

Deverre, C. and Lamine, C., 2010. Les systèmes agroalimentaires alternatifs. Une revue de travaux anglophones en sciences sociales. *Economie Rurale*, (3): 57-73.

Greif, A., 1994. Cultural beliefs and the organization of society: a historical and theoretical reflexion on collectivist and individualist societies. *Journal of Political Economy*, **102**: 912-950.

Grolleau, G. and Caswell, J., 2007. Interaction between food attributes in markets: the case of environmental labeling. *Journal of Agricultural and Resource Economics*, **31**(3): 471-484.

Gui, B., 2000. Beyond transactions: on the interpersonal dimension of economic reality. *Annals of Public and Cooperative Economics*, **71**(2): 139-169.

Hart, O. and Moore, J., 1988. Incomplete contracts and renegotiation. *Econometrica: Journal of the Econometric Society*: 755-785.

Hinrichs, C. Embeddedness and local food systems: notes on two types of direct agricultural market. *Journal of Rural Studies*, (16): 295-303.

Klein, B. and Leffler, K.B., 1981. The role of market forces in assuring contractual performance. *The Journal of Political Economy*: 615-641.

Lizzeri, A., 1999. Information revelation and certification intermediaries. *The RAND Journal of Economics*: 214-231.

Masten, S.E. and Saussier, S., 2000. Econometrics of contracts: An assessment of developments in the empirical literature on contracting. *Revue d'économie industrielle*, **92**(1): 215-236.

McMillan, J. and Woodruff, C., 2002. The central role of entrepreneurs in transition economies. *The Journal of Economic Perspectives*, **16**(3): 153-170.

Ménard, C.; 1996. On Clusters, Hybrids, and Other Strange Forms: The Case of the French Poultry Industry. *Journal of Institutional and Theoretical Economics*, (152): 154-183.

Ménard, C., 2000. *Institutions, contracts and organizations*. Edward Elgar, Cheltenham, 445 pp.

Ménard, C. and Shirley, M., 2005. *Handbook of New Institutional Economics*. Springer.

Ménard, C., 2004. The economics of hybrid organizations. *Journal of Institutional and Theoretical Economics*, (160): 345 - 376.

Messmer, J.-G., 2013. Les circuits courts multi-acteurs: émergence d'organisations innovantes dans les filières courtes alimentaires, INRA, France.

Milgrom, P. and Roberts, J., 1990. Bargaining costs, influence costs, and the organization of economic activity. In: J. Alt and K. Shepsle (Editors), *Perspectives on positive political economy*. Cambridge University Press, Cambridge.

North, D., 1997. Prologue. In: J. Drobak and J. Nye (Editors), *The frontiers of the new institutional economics*. Academic Press, San Diego, pp. 3-12.

O'Hara, S.U. and Stagl, S., 2001. Global food markets and their local alternatives: a socio-ecological economic perspective. *Population and Environment*, **22**(6): 533-554.

Olson, Mancur, 1965. *The logic of collective action*. Cambridge: Harvard University Press.

Shelanski, H.A. and Klein, P.G., 1995. Empirical research in transaction cost economics: A review and assessment. *Journal of Law, Economics, & Organization*: 335-361.

Uhlaner, C.J., 1989. "Relational goods" and participation: Incorporating sociability into a theory of rational action. *Public choice*, **62**(3): 253-285.

U.S. Department of Agriculture, 2012. *Regional Food Hub Resource Guide*. United States Department of Agriculture, Agricultural Marketing Services.

Verhaegen, I. and Van Huylenbroeck, G., 2001. Costs and benefits for farmers participating

October 07-08th, 2013

Center for Organization Studies (CORS)

USP (University of São Paulo); FGV (Getúlio Vargas Foundation); Insper (Institute of Education and Research); UFBA (Federal University of Bahia); UFRJ (Federal University of Rio de Janeiro) and UFSCar (São Carlos Federal University)



in innovative marketing channels for quality food products. *Journal of Rural Studies*, **17**(4): 443-456.

Williamson, O., 1985. *The Economic Institutions of Capitalism : Firms, Markets, Relational Contracting*. Free Press, New York.

Williamson, O.E., 1991. Comparative economic organization: The analysis of discrete structural alternatives. *Administrative science quarterly*: 269-296.