Duration analysis to analyze factors leading wine and processed meat agro-industries to abandon their activities: Policy implications

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ABSTRACT

Our paper focuses on assessing the determinants factors that drive agro-industries to abandon their activities as well the timing of their decision. Moreover, we try to compare results between two different agro-industry sector; the wine and processed meat sectors. We apply the Duration Analysis (DA) due to its potential to analyze both the decision and diffusion aspects of abandoning behavior. The dependent variable used in the DA is the time agro-industries remain active before deciding to leave market from their first year of establishment. Several explanatory variables were considered representing agro-industries characteristics, profitability, operations results, profit margin, return on total assets and exogenous factors among other factors.

The empirical analysis uses agro-industry level data of wine and processed meat sectors in Catalonia (Spain). The selection of both sectors has been motivated by the strategic position that they occupy within the Catalonian agro-industry sector. Both have a relevant economic function representing 43% of the total sales. Moreover, the input-output tables show a strong interrelationship with other economic sectors such as agricultural input suppliers (50% of total input), logistic enterprises, banking, technological, etc., making them relevant for the regional economy. Furthermore, they play an important social and territorial role employing the equivalent of 31,534 full-time workers, representing 42% of the labor force in the agro-industry sector. Data were collected using the official balance sheets of economic results published in the commercial registry office of Catalonia. The sample size for the wine and processed meat sectors is formed by 80 and 100 active agro-industries. For the inactive ones the sample size is 38 and 52 respectively.

Economic results, exportation activities and brands' number influence abandoning decision. Moreover, small agro-industries are more prone to leave market due to their low competitiveness. The results will help policy makers to target those agro-industries that have higher hazard to abandon market in order to lengthen their "lives". By doing so, they will contribute to maintain the social fabric associated to these agro-industries.

KEYWORDS: Agro-industries, wine, processed meat, Duration Analysis.