

The role and importance of the transactions costs theory in agricultural contracting area: an appraisal of selected empirical studies

ABSTRACT

Formal contractual arrangements cover a considerable share of globe agricultural production. Agricultural contracts can have many beneficial effects. They can help farmers manage price and production risks, thus encouraging more efficient use of farm and processing capacities. But contracts can also have less benign effects. They can introduce new and unexpected risks for farmers—in some circumstances, they can extend a buyer’s market power—and they can effect fundamental changes in how farming is organized and carried out. In this our article we address transaction cost theory (TCT) in some details as a theoretical framework in study of methodology of agreements and contracts, for proving the role and importance of this theory on agriculture contracting area based on eight empirical studies on assessing transaction costs in different farms. Main finding is there are diverse opinions on the applicability of the transaction costs theory in agricultural contracting scope of different management decision-making processes. These opinions developed over a long period of time following continuous improvement on the application of the theory in solving of the outsourcing business problems. These studies also proved that transaction costs are difficult to measure and there is no standard procedure to assess transaction costs, but they can and should be estimated because they are important cost elements in the decision-making process concerning the choice of contract for different outsourcing agricultural production stages.

Keyword: Agricultural contracts; Spot markets; Transaction cost theory; Governance structures; Contracts matrix