Determinants of Successful Cooperation in Agricultural Markets: Evidence from Producer Groups in Poland

Ilona Banaszak

Abstract The main question posed in the paper is why some cooperative arrangements in agricultural markets survive and succeed while others fail. Data were collected from 62 Polish farmer cooperative organizations called producer groups. The main aim of those organizations was to organize joint sales of output produced individually by their members. Some of the groups were functioning effectively while others had disbanded or were no longer performing their essential functions. Variables such as the leader’s strength, previous business acquaintances, initial selection of members, and number of members have a significant positive impact on the likelihood of success of the researched organizations.

Keywords: Cooperation · Agricultural markets · Producer groups · Poland

1 Introduction

In the mid-1990s organizations called producer groups first appeared in Poland. Producer groups were formed by farmers, and their main purpose was to jointly sell agricultural output produced individually by members. Farmers entering producer groups kept their distinct property rights, and they coordinated only on some transactions such as searching for buyers, negotiating contracts and transportation. The groups adopted different legal forms ranging from informal oral agreements, through associations, unions, limited liability companies and cooperatives.

I. Banaszak
Humboldt University Berlin, Division of Resource Economics, Luisenstr. 56, 10099 Berlin, Germany
and
Slovak Academy of Sciences, Institute for Forecasting, Sancova 56, 81105 Bratislava, Slovakia
banaszai@rz.hu-berlin.de
Data from an empirical survey carried out with leaders of producer groups located in Wielkopolska Province show a substantial variety in the performance of producer groups. First of all, at the time the research was carried out 20% of the groups were disbanded. Second, only 80% of functioning groups performed the main task of organizing joint sales of the output produced individually by members-farmers; others were engaged only in organizing such activities as joint transportation, joint purchase of the means of production, organizing trainings for members and other social events. Third, some of the functioning groups that performed joint sales were not able to negotiate any price premium for their members’ output and were selling their products at the same price as non-members farmers; others were able to negotiate as much as a 39% higher price premium for their members (Banaszak, 2006).

The central question posed in this article is why such big differences among the producer groups exist. Why do some of the cooperative organizations fail over time, why do some continue to exist without performing their main functions, and why do others expand and build up their market power?

The success and failure of cooperative enterprises in agricultural markets has been subjected to empirical research; however, the literature merely focuses on organizations that were operating and performing their main tasks at the time the research was carried out. What also emerges from the literature review is that the authors define success of cooperative organizations in very different terms. Bruynis et al. (1997), for instance, executed an empirical survey with 52 American marketing cooperatives and distinguished eight keys to success, understood in terms of longevity, business growth, profitability, and member satisfaction. Such factors as implementation of a management training process, employing an experienced full-time general manager, regularly distributing accurate financial statements among the management team, using marketing agreements to secure business volume commitments from the members, and utilizing human resources appeared to be significant for the researched organizations achieving success (Bruynis et al., 1997: 54). Sexton and Iskow (1988), who built their study around vertical integration theory, distinguished three groups of organizational, financial, and operational keys to success of agricultural cooperatives. The authors surveyed 61 U.S. agricultural cooperatives and asked the respondents to rank their cooperatives on a four-level success scale. Such factors as open membership, accepting nonmember business, and employing full-time management were correlated with self-understood success.

Among research including disbanded organizations, we find Ziegenhorn (1999), who based his research on economic anthropology and New Institutional Economics and carried out a few case studies of farmer production networks in the swine industry. The author also investigated cases of actors failing to cooperate. The greatest responsibility for a network’s success or failure in terms of its survival was attributed to a network organizer whose knowledge and selection of participating farmers influenced compatibility (Ziegenhorn, 1999: 66).

Producer groups are only one possible way of organizing transactions between farmers and purchasers of their products. Another way is a direct exchange or an exchange through a middleman. We discuss the comparative advantage of one form of