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# **Support for Farmers' Cooperatives**

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*Case Study Report*  
**Performance and  
sustainability of  
new emerging  
cooperatives in  
Poland**

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Piotr Matczak

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# Support for Farmers' Cooperatives

## *Case Study Report*

### ***Performance and sustainability of new emerging cooperatives in Poland***

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## **Executive summary**

In the report results of a qualitative study are presented which focused on the factors influencing the sustainability of newly established agricultural producer groups in Poland. Three successful cases were chosen for the analysis: a) Sady Krajny, a production group specialized in fruits production; b) Jar-Pek Plus, specialized in pig production and c) Krobia, specialized in a vegetable production, mostly in tomato. The impact of the EU policies and internal governance structure were taken into consideration. Specifically, based on the earlier studies, collective action problems and leadership issues were analyzed as important factors influencing the sustainability of the cooperatives. The cases selected for the analysis vary in several respects but are successful, which means that the collective action and the leadership problems were overcome. The impact of seventeen factors was examined. Several main findings can be presented.

First, as it was hypothesized, appropriate internal governance and supportive institutional context are the most important factors for the emergence of new producer groups and their proper functioning. External support in the form of financial support schemes is of critical significance, but without the financial support the groups would not be created. As external financial support is the first crucial factor for the establishment of producer groups, leadership is the second one. In all analyzed cases the groups were organized by committed and skillful leaders. All of them were well known locally. None of them were producers. They became directors and have relative independence and substantial operational power. It is clearly the same pattern in all three cases. Thus, the external financial support and the presence of engaged leaders are two main factors that have led to the success of the groups.

Second, the design of support schemes is basically accepted. The exception was the ban on investment which was strongly opposed by the groups and finally abandoned. Otherwise, there was no major criticism on the support. The main obstacle in establishing further groups was seen in the mentality and inability to set up cooperation. The design of the support policies was not seen as a problem. Competition is not a crucial problem for the groups, and it seems to be equally significant for the groups and for the individual producers. Elite capture had little relevance for the analyzed cases. The Jar Pek Plus is open for new members, within the wider structure of other producer groups (eight of them altogether). Two other groups are rather closed, but in the Sady Krajny area other groups can be established. The attempts failed due to difficulties in finding leaders. The Krobia is also closed, because of the monopsony market of limited demand. Although elite capture seems not to present, other related issues can be problematic. As leadership is crucial and the conditions for a successful leader are quite strict, supply of leaders is limited. Maybe the first established groups gets all available resources – a leader and producers willing to take risk. This results in a “the winner takes all situation” where subsequent attempts will be short of necessary resources.

Third, government intervention is helpful for establishing the producer groups, but only in a rather limited way and in a short-time perspective. The financial support provided just induced the establishment of the groups, and technical assistance from the regional government office was also helpful. In the longer run, continuity of the support schemes is uncertain. This is in line with the general unpredictability of state interventions, which often changes the rules of the game.

Fourth, leadership is not only necessary for the group establishment but also has a fundamental role in the enforcement of rules and trust building. Since distrust is a very serious obstacle against farmers' cooperation, the strong position and relative independence of the leader (the director, i.e. the chairman of the executive board) is a strategy to cope with this problem. The director's position exhibits a specific combination of attributes. He is a person locally known (so having some level of initial trust), and not a producer (so independent). The management structure gives the director the clear role of ensuring that the rules would not be broken by

particular members. This is related to other properties characteristic of the dominant position of the leader, such as being superior in knowledge, initiative, communication skills etc. compared with other members of the producer group boards and members. The establishment of further producer groups may be difficult since the supply of appropriate leaders is scarce. It can be argued that the first groups established are in the winner takes all position. They collect the most active producers and engage qualified leaders available. It leaves later adopters with little resources available.

# **1. Introduction**

## **1.1. Objective, research questions and hypotheses**

Besides the transformed successors of the former socialist cooperatives, new cooperatives have been established in the New Member States (NMS). As both success and failure of such cooperatives can be observed, the question arises as to what can make them sustainable. In addition, as the establishment of new cooperatives in the NMS has been supported by EU and national policies, what has been the impact of these policies? What problems have the new emerging cooperatives been facing and how can they be solved?

In the context of the above questions this report focuses on the performance and sustainability of new emerging cooperatives in Poland. The main question is: providing the emergence of new producer organizations as response to EU policy, which are the most important issues affecting cooperative performance and internal governance in the emergent co-ops of NMS? This study is supplements by the analysis done in Hungary (the results from Hungary are presented in a separated report).

The following hypotheses were set up for the study:

- Regarding emerging marketing cooperatives in New Member States, resilience and robustness of newly established cooperatives depending on appropriate internal governance and supportive external institutional context are primarily relevant for their sustainability.
- Inappropriateness of transplants and blueprints, elite capture, leadership problems and unfair international competitors are among the main reasons for failure of emerging marketing cooperatives in New Member States.
- State interference can be positive and negative in the process of developing self-organization in the cooperatives, that requires clearly facilitating policies e.g. in advisory services and capacity building.
- Leaders of new cooperatives face problems with commitment and trust among the members and between the members and the cooperative management. Policies for encouraging farmers to set up new cooperative organizations that are able to compete with other market organizations have to account for the socialist legacy.

Particularly it was tested whether or not the following specific hypotheses can be refuted:

- H. 1. Economic necessity is a condition for the establishment of a producer group and for making it sustainable
- H. 2. A tradition of cooperation is a condition for the establishment of a producer group and for making it sustainable
- H. 3. Leadership is a condition for establishment of a producer group
- H. 4. External enhancement is a condition for the establishment of a producer group and for making it sustainable
- H. 5. A group structure allowing close contacts among members and mutual control and - consequently - rule enforcement (overcoming the collection action problem) is a condition for making a group sustainable
- H. 6. A group structure established by members that is appropriate to deliberately secure overcoming the collective action problem is a condition for making a group sustainable
- H. 7. A group structure with clear leadership positions in order to secure overcoming the collective action problem is a condition for making a group sustainable
- H. 8. A group structure with efficient mechanisms to punish noncompliance is the condition for making a group sustainable

- H. 9. Perceiving cooperation as being driven by the shared beliefs (e.g. on moral superiority of cooperation over individualistic competition) is the condition for making a group sustainable
- H. 10. Positive attitudes of local stakeholders towards producer groups is a condition for making a group sustainable
- H. 11. Positive attitudes of national stakeholders (elites) towards producer groups is a condition for making a group sustainable
- H. 12. A support system that requires little technical knowledge for being used is a condition for making a group sustainable
- H. 13. A support system that provides security in the long run is a condition for making a group sustainable
- H. 14. A support system that allows using subsidies for investments is a condition for making a group sustainable
- H. 15. A support system that is focused on organizational assistance is a condition for making a group sustainable
- H. 16. The existence of a shadow economy is a condition for making a group sustainable
- H. 17. Growing national and international competition is a condition for making a group sustainable

## **1.2. The situation of the cooperative sector in Poland and a brief review of the literature**

The current development of producer groups in Poland has been a result of long-term processes. In short, before the Second World War, the development of the cooperative sector in Poland was similar to other countries (Chloupkova et al. 2003). During the communist period, a significant part of farms remained in private hands, in contrast to most of the other communist countries. Cooperatives were de facto a part of the centrally planned economy and were promoted and imposed as a part of the implementation of the communist doctrine. The decay of the communist regime had a profound impact of the Polish agriculture and on cooperatives. Within the 2 years of 1990-92, the income in the agricultural sector declined by 40%. At the same time, a significant part of the cooperative system in agriculture vanished, in some sectors (e.g. sheep production, fruits and vegetables) almost completely (Wilkin et al. 2005). Many cooperatives were dissolved while almost no new ones appeared until 2000. This was due to a bad reputation of cooperatives and lack of incentives. In 2000, support schemes were initiated to induce the establishment of producer groups. The special term "producer group" was used to avoid any association with the bad reputation of cooperatives. Yet, after 2000 few producer groups were established, since the help was rather symbolic. After 2004, the support of establishing producer groups started to become more substantial, both in terms of providing advice and subsidies schemes. As a result, many producer groups emerged, about half of them taking the form of cooperatives, while many, especially small ones, were limited liability companies. The general situation of the Polish agriculture and the cooperative sector in particular improved after EU accession in 2004 (Dzun and Adamski 2010). Their economic and financial situation was particularly improved by direct payments and financial resources from other support programmes. Despite the emergence of the new producer groups and better performance of the cooperatives in recent years, there are doubts whether we will be able to observe a consolidation of the cooperative sector in a longer perspective (Valdez 2012).

The sustainability of cooperatives at the micro level of particular entities was investigated comprehensively by Banaszak (2008). Her dissertation (at the Division of Resource Economics of Humboldt University Berlin) during the years 2003-5 focused on the determinants of success and failure of producer groups in Poland. Based on data collected on 50 functioning and 12 disbanded producer groups, the two main factors responsible for the sustainability of producer groups were identified and tested. Firstly, the study shows that not only economic and market situation influences the performance of producer groups but also collective action problems.

This is related to mentality problems - distrust towards cooperatives and towards the very possibility to cooperate among farmers. Compliance with rules appears a real challenge to the viability of cooperatives. Secondly, leadership turned out to be a crucial factor determining cooperatives' performance. Strong leadership helps to overcome collective action problems, but – at the same time – the commitment of a leader in longer perspective requires adequate financial compensation. The workload of a leader of a cooperative appeared to be significant. Without appropriate salary, the motivation of a leader decreases which has a negative impact on a cooperative's performance.

### **1.3. Methodology**

The reports present the results of a qualitative study. Three cooperatives were chosen to identify the degree of success and failure of cooperatives in different sectors and to inform about their sustainability. The analysis aims at the description of the cooperatives taking into account both the research questions of this study and the results of the earlier studies.

Specifically, the study aims at revealing how the problems of collective action, distrust, compliance with rules and leadership are solved within the particular cooperatives. As the EU support schemes are considered as an important part of the context, the study aims to evaluate their effectiveness and efficiency for the promotion and development of cooperatives. Also insights on the competitive position of the cooperatives in the food chain, internal and external governance of cooperatives, and specific regulations and support measures in particular sectors were taken into account.

For the study three cooperatives were chosen:

- a) Spółdzielcza Grupa Producentów Trzody Chlewnej Jar-Pek Plus (Pig Meat Production Cooperative Producer Group JAR-PEK), 63-200 Golina. It is a producer group specialising in pork production. It started in 2007 and is successful in terms of development and new initiatives. There are several other producer groups which started as spin-offs. Together they also engaged in vertical integration (there are few such cases in Poland) by buying a slaughterhouse. A new second tier cooperative is established by the cooperatives. The group is considered successful although it operates in the very unstable pork production sector.
- b) Bialosliwska Spółdzielcza Grupa Producentow Owocow - Sady Krajny (Bialosliwska Fruits Production Cooperative Producer Group - Sady Krajny, Bialosliwie 89-340. This cooperative was established by 19 members in 2005,. It is a fruit production group. A local cooperative bank had a vital role in founding this cooperative. The area has little cooperative tradition. The group managed to build a sorting hall and a logistics centre.
- c) Spółdzielcza Grupa Producentów Owoców i Warzyw dla Przetwórstwa (Cooperative Producer Group of Fruits and Vegetables Producers Krobia), Krobia, 63-840 Krobia. It is a cooperative producer group established in 2003. It has specialized in vegetable production, mostly in tomato, and consists of 230 members and produces  $\frac{1}{4}$  of Poland's tomatoes. 95% of its production is sold to one company (Heinz). There is a long tradition of tomato production in the area, and a Producers Union was established already in 1958. The group is successful but operates under specific circumstances. It is exposed to a monopsony market, and global competition poses challenges for the producers.

All three cooperatives can be considered as being successful. They were established recently (last ten years), they function and develop without a serious danger of collapse at least in a short-term perspective. The research scheme and the choice of cases rely on the Banaszak's (2008) investigation, that identified critical issues for sustainability of cooperatives. The study showed that, firstly, strong leadership was helpful to establish a group and to maintain a group. Secondly, the burden leaders had to take needed to be compensated. Otherwise, without a motivation for a leader a group could fail. Thirdly, a group members' non-compliance is a serious

danger for a group and the role of a leader is significant to cope with this issue. Fourthly, selection of members at the group formation stage influenced the successful operation of a group. The study also showed that 50% of the groups, which split up were initiated with the help of the extension service, while none of the investigated successful groups were initiated by the extension service. Finally, the crosscutting issue is the mentality – distrust towards cooperation and leaders.

Banaszak study was based on the extensive, quantitative data. The study which is presented below is qualitative and narrower in scope. Due to these limitations, the study was organized in such a way that the successful cases were chosen in order to identify and verify factors helping to overcome difficulties for a group sustainability, identified by Banaszak. It involved choosing the cases which are homogeneous, while different by some parameters.

All cases chosen are producer groups that chose the form of a cooperative. Producer groups of other forms were not included. The reason was decision to diversify legal forms of chosen groups would decrease the possibilities to infer by adding additional dimensions, which are not controlled variables.

The cooperatives differ in some respects. They cover three types of production: pig production; tomatoes (vegetables); and fruits. The cooperatives emerged in different traditions. Jar-Pek plus was set up in an area where farmer circles' cooperatives existed, and it was based on the formerly established Jar Pek - the producer group union. The Krobia cooperative also emerged based on a formerly well functioning union. In the region of Sady Krajny there was little tradition of cooperatives, however there was a need for a common action of fruit producers.

The cooperatives differ also in size: Sady Krajny is a small group (around 20 people) while Krobia has 230 members.

All cooperatives are located in the West-Central part of Poland. Jar-Pek Plus is in Golina, a village close to the city of Jarocin, around 80 kilometers East-South of Poznan. Krobia is 70 km south of Poznan. Bialosliwie is 100 kilometers north of Poznan, 30 kilometers from the city of Pila.

#### **1.4. Conduct of interviews**

The data were collected from two main sources: a) interviews with cooperative members and stakeholders; b) documents (the statutes, balances, financial reports).

The interviews were carried out at the end of March and the beginning of April 2012. The list of interviewees is presented in Table 1.

Table 1. List in interviewees

	Position of the interviewee	Group	Additional information
1	Director of the Executive Board	Krobia	-
2	Member of the Executive Board	Krobia	-
3	Producer, member of the group	Krobia	-
4	Member of the Executive Board	Krobia	-
5	Manager of Heinz company	Krobia	-

1	Director of the Executive Board	Jar-Pek Plus	-
2	Member of the Executive Board	Jar-Pek Plus	-
3	Producer, member of the group	Jar-Pek Plus	-
4	Producer, member of the group	Jar-Pek Plus	-
5	Individual farmer from the area	Jar-Pek Plus	Non-specialized farmer, producing milk cows, pigs, and crops
6	Member of Parliament	Jar-Pek Plus	MP since 1991, specialized in agriculture and cooperatives, worked in cooperatives before he was elected
7	Director of the Wielkopolska Association of Pig Producers	Jar-Pek Plus	-
8	Secretary of the Krotoszyn local government	Jar-Pek Plus	-
1	Director of the Executive Board	Sady Krajny	-
2	The Cooperative bank director	Sady Krajny	-
3	Member of the Executive Board	Sady Krajny	-
4	Member of the Executive Board	Sady Krajny	-
5	Individual farmer from the area	Sady Krajny	Fruit producer
6	Secretary of the Bialosliwie local government	Sady Krajny	-
7	Producer, member of the group	Sady Krajny	-
1	Officer in the regional government office responsible for producer groups	Poznan	-

## **2. Description of the first case: Sady Krajny**

### **2.1. Establishment and history of Sady Krajny**

The municipality of Bialosliwie is located in the northeastern part of Greater Poland, 30 km from the city of Pila, in the river basin of Notec. The Krajna is a geographical region with its own culture, climate and soil conditions. There are from 3000 to 4000 ha of orchards in the area around Bialosliwie.

In June 2005, nineteen producers organized, with support from the Cooperative Bank in Bialosliwie, a producer group called: Bialosliwska Spoldzielcza Grupa Producentow Owocow - Sady Krajny (Cooperative Group of Fruit Growers of Bialosliwie – Sady Krajny). The group was registered in November 2005, which is the official date of starting the Cooperative. Before, there were two initiatives for starting similar cooperatives in the area, but they did not succeed. These attempts failed due to lack of “critical mass”. There were meetings, with some producers willing to establish a group, but there was lack of conviction, and risk aversion prevailed. In the area there was little cooperative tradition, so these initiatives could not rely on experience.

The Sady Krajny cooperative was initiated by the Nadnotecki Cooperative Bank (Nadnotecki Bank Spoldzielczy). As the director of the bank explained, the reason of the bank's engagement in establishing the organization was that members of the bank supervisory board, the director and also the members of the bank were dealing with fruit cultivation. They decided to change the situation of the fruit growing sector in this area through establishing a cooperative. Although there are many orchards in the region, the situation of individual fruit producing farmers was difficult. They could sell their produce on local markets, but it was hard, time consuming and sometimes not economically efficient. Thus there was a real need for cooperation. When the support scheme for producer groups became available, a window of opportunity appeared and the plan for establishing a cooperative materialized. At the very beginning, the cooperative administration was arranged by the bank staff, afterwards (till the official registration of the cooperative after 6 months), the bank employed a manager. This person acted as an organizer, he was visiting producers, organized meetings and successfully managed to establish the cooperative. He became and still is the director of the cooperative and is also employed by the cooperative. He is not a producer and has a strong managerial position.

The rationale for initiating the cooperative was not the bank's direct financial interest, but rather the need of helping the farmers in the area. Actually, the cooperative is not an important partner for the bank, as it still is a too small entity. Moreover, the cooperative uses services of other banks as well. Without the bank's help the group would not have been established. But the bank would not have taken the initiative without the support schemes being available. Additionally, technical support at the beginning was also provided by the office of regional government.

Living in a rather small rural society, the members of the cooperative had already known each other before establishing the cooperative. The founding members had the opportunity to participate in forming the rules and in the early operation of the cooperative, they elected the supervisory board members, too. Soon after the cooperative was established new members joined, and there was a period when the cooperative had nearly 50 members. The crucial issue was investment, i.e. building the sorting hall and logistic centre, when a loan was taken on the shared responsibility of the members. To secure the financial responsibility an amount larger than the initial share was required. The responsibility of the individual farmers for the loan was not overwhelmingly large in fact – 15 000 PLN (3750 EURO), but it caused the group size to decrease by half to the current number of 20 members.

The cooperative form of the group was chosen because of its simplicity. It was also recognized as fitting to the type of the group and the type of production. Nevertheless, the director is skeptical about the cooperative form. He sees its advantages but, to him, being a limited liability company would simplify decision making process and business operations.

The basic economic profile of the cooperative in 2010 can be outlined as follows:

- Total assets: 9 692 730 PLN (2 420 000 EURO<sup>1</sup>)
- Equity: 929 970 PLN (232 500 EURO)
- Net revenues: 4 600 000 PLN (1 150 000 EURO)
- Net profit: 174 000 PLN (43 500 EURO)

It can be concluded that two conditions were met in this case leading to the successful establishment of the cooperative. The first was the support schemes for producer groups that offered the incentives. The second condition was the resources provided by the bank (in terms of financing some months of the manager's work). The very support scheme would not be enough as some earlier failed attempts showed. But employing a committed manager would possibly not have succeeded in the group establishment without the perspective of getting the subsidies.

## **2.2. Structure of the Sady Krajny**

The cooperative has the standard structure, consisting of the three main bodies: a) the general assembly of members; b) the supervisory board; c) the executive board. The general assembly of members is the most important organizational forum, with each member taking part with one vote. There is a possibility to invite outsiders as advisors. The meeting is held at least once a year (in case of necessity more frequently), after closing the financial year and before the fruit growing season. The general assembly has the right to pass the economic and strategic plans for cooperative's management, accept the financial balance and accountancy reports, take all sort of financial decisions, give the approval for the board members, and work out the resolutions connected to auditing the cooperative's functioning. Furthermore, this forum has the right to accept changes in the regulations and in the statute. The general assembly can decide on creating social or managerial funds, and every year it establishes the conditions of production – the amount and quality of production, the percentage of production to be processed, and the conditions of selling by the cooperative. Accepting all sorts of changes in the organization of the cooperative is also the task of this forum.

The supervisory board consists of five members elected by the general assembly for four years. There are no restrictions on how long the members may stay in office. The supervisory board has to deal with all organizational and financial matters and ensure the development of the coop. Apart from this, this body calls and removes the board, and the director of the board, accepts and controls keeping the regulations by the board. The supervisory board meets at least once in three months time, if necessary even more frequently. The supervisory board consists of producers.

The executive board of the cooperative is responsible for the ongoing management of the cooperative and represents the cooperative in the public. The board consists of the director and two members, chosen by the supervisory board. The general assembly also can change the board. The director is the leader of the company in legal terms. All management, developmental, marketing and organizing issues connected to the cooperative's everyday operations are within the competence of the board.

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<sup>1</sup> The exchange rate taken for this report is: 1 EURO = 4 PLN

New members have to fill a declaration form and pay the fee for entering the cooperative. The entrance fee initially, when Statute was accepted, was 9500 PLN (~2 375 EURO), later it was raised to 50 000 PLN (~12 500 EURO). Members can buy share equivalents, and the value of one share is 500 PLN (~125 EURO). Each member has to buy at least one share. The profit of the cooperative is shared according to the amount of shares of the members.

Members are not allowed to sell more than 20% of the fruits outside the coop (out of those fruits that are within the coop's scope). They can use the machinery of the cooperative according to the conditions accepted by the supervisory board. The statutes define how members can leave the cooperative and under what conditions members can be removed from the cooperative. The minimum length of membership is one financial year. The most important decisions are taken by the board, however, the director has the proxy status, which is rather unique in cooperative structures and gives him a strong position. The important decisions are taken together by the director and the board members. There are regular board meetings, at least weekly, mostly more frequently.

### **2.3. The group operations and management**

Members of the Sady Krajny cooperative grows fruits (apples, pears, plums, cherries and sweet cherries) on approximately 500 hectares. The cooperative plays mainly a marketing role and provides its members with an opportunity and security to sell their produce. It already has a contract with a large supermarket chain and aims at securing contracts with supermarkets. This is considered as the most promising option for the future. The director and the board mentioned that the cooperative will be able to orient towards selling to market chains – since this form of trade is replacing the local markets. The requirements of chains are significantly higher and only large, well organized groups can fulfill them. The Sady Krajny sells also abroad (to Russia, and to Norway – smaller amount), but it is considered as risky business, dependent on political swings, especially in the Russian market. That's why supermarket chains can be considered a better option. The cooperative developed its own trade mark.

The cooperative bought land in 2006 and built a sorting hall and logistics centre, which was completed by 2011. The development faced difficulties due to land use planning procedures, arrangements of property rights and the building permissions, getting the loan and public support. These obstacles were overcome but required a lot of muddling-through efforts. The transformation of the land use turned out to be very difficult and time consuming. Finally, the agreed changes in the local land use plan were suspended by government administration because of the protests concerning the other part of the village. The cooperative decided to establish a farm as a legal unit and built the centre this way. It was a large investment and a strong effort for the cooperative. The building provides the basis for the future development of the cooperative. It is equipped with the up-to-date machinery and technology.

The agro-meteorological station was installed in 2008. It delivers information on meteorological conditions helping farmers to plan their practices accurately. Also farmers outside the group can buy the agro-meteorological services. The group also arranges other agricultural services for members, e.g. soil analysis. It organizes also social events, meetings, and consultations for its members.

Both the director of the bank and the executive board member think that the form of management developed is a success. It relies on the director not being a farmer, while all farm-related functions of the cooperative management are fulfilled by the farmers. The director is an experienced trade manager, able to deal with difficult operations and to arrange all the formalities. He still can have a distanced and neutral position – since he is not involved in production. However, as he is employed by the cooperative (and also his child works for the cooperative), he has the personal interest in running the company well, according to the interviewees member. The coop members are satisfied with this situation. In none of the

interviews any serious problem within the cooperative was expected. At the same time, the interviewed member of the cooperative argues that the cooperative's success was mainly achieved because there were some desperate members at the moment of establishing the cooperative. He also mentioned, however, that the employed leader helped a lot.

The strong position of the leader seems to work well and the relevance of leadership was also mentioned by the interviewed secretary of the local government. From the local government point of view, a main obstacle against forming more producer groups is the lack of strong leaders being able to arrange all the operations required.

The director of the bank did not regard the success of the cooperative as a success of the local fruit growers in the area, since only 10% of the farmers are involved in the cooperative. The rest of the farmers are not convinced. According to the director, there is distrust towards cooperatives (a remaining attitude from the communist times) among them and they believe that they can sell their products alone. Another obstacle to joining the cooperative was increasing entry costs due to its success and because the property of the cooperative stayed in the hands of 20 people. Currently, the entrance fee (50 000 PLN, ~12 500 EURO) is considered by outsiders as extremely high. According to the bank director decreasing the fee by half would increase the membership twice. Most farmers cannot afford the current fee; they would rather start a new cooperative. There are many fruit plantations in the area, and farmers for the time being tackle with selling and marketing alone. This will not be possible for too long.

The interviewed farmer outside the cooperative shares these opinions seeing the cooperative as a desirable example. Although he acknowledges the advantages of the cooperative, the entering fee is too high for him. He cooperates with the group, knows all cooperative members but rather considers a possibility of forming a new producer group. However, the main obstacle is lack of a charismatic, educated manager that could be a leader of such a group. Such a person should be absolutely trusted and should originate from the region. Also, such a person should be able to arrange all the formalities, since farmers are not good and not willing to deal with administration. The lack of such a qualified person makes the establishing of a cooperative difficult.

According to the interviewees, a high entrance fee is a sort of the price for joining the relatively secure business. The earlier members' decision to guarantee the loan meant to take the risk and half of the members resigned, leaving the rest with the risk. The current high entrance fee is the price to be paid by newcomers – also by the old members who left the group being afraid of the risk and avoiding the warranty of the loan.

The interviewees consider the information flow in the cooperative as good. Members know each other and they know about all the important issues. The contact of members with the board is also satisfactory. The problems within the cooperative are attributed to the human mentality – members have difficulties when they have to discuss and decide. The interviewed member of the board gave the example of the cooperative obligations. At the beginning, when the cooperative was established, members were enthusiastic, but when the rule of 90% production to be sold through cooperative was executed, they became reluctant.

## **2.4. Perceived benefits of farmers' cooperation**

There are several advantages of the group that were detected: a) help in selling the production; b) help in getting better prices; c) advantages for the community and farmers outside the group.

The idea of establishing the cooperative appeared because of the marketing difficulties in the fruit sector. The interviewed board members (producers at the same time) agreed that the main advantage of belonging to the group is the comfortable and safe situation for the farmers as they do not have to bother about selling their products. They can save time and live with less stress. Moreover, purchasers require high amounts of products, continuous delivery and the proper

quality of products. The advantage of acting as a group is the possibility to meet these conditions. Belonging to the cooperative allows selling to larger companies as well as to wholesalers. Otherwise there are resellers (especially for apples) that help in selling fruits. But they pay only if they manage to sell, in case they cannot find a buyer than give the fruits back. Sometimes the customers want short-term delivery – such a requirement could not be arranged outside the group. Since selling the products is more predictable, due to the group, producers can develop their farms. According to the member of the executive board, before the cooperative was established there was no use in developing the farm and producing more since there were serious difficulties with selling the products. The director mentioned that in a longer term there will be a possibility to influence and plan new plantation types which are in accordance with market requirements.

Getting better prices is not perceived as particularly strong advantage of the group. Price negotiation is an important role of the group, but in about 30% of the cases they cannot get higher price than the market offers. Generally the prices do not differ, but depending on the fruit quality farmers outside the group can obtain the same price or even higher prices when there is a lack of fruits and the private dealers offer more competitive price than the cooperatives' contracts can assure. Interestingly, the better price as the advantage of the group was more emphasized by an outsider, the secretary of the local government, than by the members of the group.

Another issue is the support. Belonging to the group enables getting subsidies. It was not stressed as the advantage of the group but presumably the support is the critical element for the establishment of a producer group.

The existence of the cooperative yields benefits not only to group members but also for farmers dealing with fruit growing outside the cooperative and for the whole community. The director of the bank and the interviewed board member mentioned that via negotiating prices, the cooperative sets a sort of benchmark for deals in the region. The cooperative plays a role in price formation, and non-coop farmers call and ask for the prices. The cooperative itself also buys from other farmers, in case of necessity. Dealers are more careful, prices are known by farmers outside so the deals are more secure and transparent. The cooperative forms business standards, as the secretary of local government pointed out.

As the director of the Bank mentioned, the cooperative arranges consultation services, soil analysis, plant protection chemicals, etc. As the result, the group's existence is profitable not only for the members but also for the smaller firms in the region that deal with the cooperative. The cooperative builds the market for goods and services in the area.

The group strengthens also the environmental aspect of the agricultural practices. The interviewed board member mentioned that since the cooperative gets subsidies from EU, the documentation and environmental issues have to be treated more seriously, than for other farmers.

In terms of generating employment the cooperative is not too important in providing job opportunities for people in the region, when comparing to other companies employing hundreds of people. On the other hand, the interviewed farmer (from outside the group) and also the secretary of local government mentioned that the cooperative is important for the local economy because it provides permanent employment for app. 15 people, and more for seasonal work.

## **2.5. Attitudes of stakeholders towards the group**

Better marketing opportunities and - related to this - a better financial standing are the benefits of producer groups as seen by outsiders. People are not aware of the cooperative's advantages

other than marketing – according to the opinion of the interviewed farmer from outside the cooperative.

In the case of the Sady Krajny, the current, very high entrance fee for the cooperative makes the cooperative closed. It is seen as a desirable example, but other farmers would rather start a new group than join the existing one. For starting another cooperative or Producer Group there is a need for a committed leader, and such a person for the time being is lacking. Moreover, but outsiders are afraid of problems within the cooperative (regarding rule compliance and the obligation of selling through the group). The fact that the storage and processing building is under operation has abandoned the doubts of outsiders. Other producers envy this. Also the secretary of the local government thinks that the establishment and operation of the processing, storage and sorting building indicates that the group is successful. The profit however is mainly for the members rather than for the local municipality. There is little income via taxes and diminishing the black market. The cooperative has an important role in forming the community – the members have to build a trustful environment for successful cooperation. Such a group can be successful, if it can show a good practice others may also want to join.

The director of the bank thinks that there is still a need for enlarging the cooperative – or establishing new ones, since the market turns towards selling to supermarkets, and there is a must to get continuously high quality fruits. To the director, within a ten-years-period there will be a problem with fruit delivery. To create new plantations on the place of other cultivations would be a solution. There were such attempts but without success in convincing the farmers. Nevertheless, when comparing to other sectors, e.g. pig producers or crop growing, in the case of fruit sector there is a bigger potential for establishing a cooperative, according to the bank director.

## **2.6. Opinion on the support to producers' groups**

The interviewed persons agreed that the legal background is favorable for forming producer groups. The legislation is seen as easy to follow and stimulating groups' establishment. The Sady Krajny was the first producer group in the area and it tested the measures and procedures. The example is encouraging.

The Sady Krajny obtained support from several sources. The most important was 5 years support from the Agency of Restructuration and Modernization of Agriculture. Also, the group obtained smaller supports from the regional and the local governments. All the interviewed parties agreed that the support from the Agency was of special importance, without it the coop could not have been established. It was the basis for the development the centre, 75% of the investment costs was covered. All the interviewed persons (bank director, both board members, coop member, director) agreed that five years is a far too short period of time for financing the emergence of a new cooperative, especially if a construction works are undertaken. Obtaining all the building permits and land use planning procedures are time consuming. That's why there should be a continuation of the support by giving a tax reduction or a loan with a preferential interest rate for cooperatives, or even the time of providing support should be extended (without increasing the size of support). The time is of crucial importance – as the second interviewed board member thinks - even more important than the amount of money. In case there is not enough time for planning a reasonable way of investment and assessing the really important investments – the money can only be spent ad hoc and maybe inefficiently. A longer support would also be desirable as it leads to a sense of safety feeling for the group members. Furthermore, as the interviewed board member mentioned, if support would have been for longer period, it could be possible to take a loan with lower interest. In the case of the Sady Krajny, the milestone in the development was taking the loan for which members had to guarantee – this decreased substantially the number of the members. In case of a more favorable loan it could probably have motivated them to remain in the cooperative.

The secretary of the local government considers individual support for farmers as less effective, compared with supporting a cooperative. Support to individual producers would induce less investment than support to a group.

Despite the favorable design of the support schemes, the development of new producer groups is seen with skepticism. The director of the Cooperative Bank does not see the necessity of a special advisory system within the bank for cooperatives. The potential of producer groups is too small for the time being. Most interviewed mentioned that the obstacle of forming more producer groups is the lack of skillful leaders, and the remaining aversions against cooperatives in the case of the older generation, rather than legislative difficulties (as indicated by the secretary of the local government, farmer from outside the group, board members).

## **2.7. The role of the “grey economy” in the development of producers groups**

The interviewed board member thinks that the existence of the cooperative decreases the “grey economy” since the group deals with buying and reselling fruits, and in these cases all the operations have to be documented and billed. On the other hand, the secretary of the local government did not think that this could be an important factor, though she also is aware that cooperative is positively lowering the contribution to black markets.

## **2.8. Competition on the market**

The prices on the fruit market are difficult to predict. They change year by year as there can be an overproduction or lack of fruits. As the interviewed board member mentioned the group helps to overcome the disturbances, since it can help to sell products abroad or to buy from individual farmers. The group is successful in selling.

In the longer perspective, the fruit market is changing, with growing percentage of fruits sold in shopping centers, not on local markets. Despite of the attempts to save the tradition of small market places in housing areas, customers increasingly do their shopping in the supermarkets. This is the market where the cooperative can have an advantage. The interviewees predict more emphasis given to fruit processing since the processed products are easier to sell. As the result, individual producers will be pressed to sell through the cooperative or to join.

The board members think that there is no competition among producer groups because so far this is the only producer group in the region. According to one board member, so far the market was relatively easy. As there was a lack of fruits (due to spring frosts) the last two years, the production could be sold easily. Along with a larger production some competition may appear in the market. But in Poland there is a niche for fruit producers and the international competition is not visible yet. The member of the cooperative, however, has another opinion. He recognises the competition in the market and according to him it should be countervailed.

For the individuals outside the cooperative, e.g. according to the opinion of the bank director, it would be better to have more than one group. For the existing group this would mean some competition of course, but it would not be too severe. At the same time, the director argues that a healthy and inspiring competition would have a good influence on any group.

### **3. Description of the second case: Jar Pek Plus**

#### **3.1. The establishment and history of the group**

The Spoldzielcza Grupa Producentów Trzody Chlewnej Jar-Pek Plus (Pig Meat Production Cooperative Producer Group JAR-PEK) was established in 2007 in the village of Golina (Central/Western Poland) as a cooperative producer group gathering only pig producers. It was based on the producer group Jar Pek established in 2003 , which has the form of a union. Jar Pek plus was established because Jar Pek approached the level of 1 million EURO of turnover and surpassing this level would decrease the support. Jar Pek union was an early attempt to establish a producer group in the area, and also in Poland. It was based on the farmers circle cooperative (SKR – Spółdzielnia Kolek Rolniczych) that existed in the village of Golina. The farmers circle cooperative worked poorly, as the whole system became disintegrated after 1990. The possibility to establish a producer group and to get support was taken as an opportunity to revitalize the agricultural business. In the area, pig production had a tradition and people still remember the company producing ham and other meat products during the communist era for the good quality, although the company collapsed after the transition period.

In addition, there is a local tradition of cooperatives in the region. As the director of the group mentioned, in 1902 the local priest initiated the local cooperative bank. The leader of the initiative to organize a producer group was an inhabitant of the village. Although not a farmer, he has been a person knowing the farmers circle cooperative well and being involved in its activities (since childhood). Due to the engagement and commitment of this person, the first producer group (Jar Pek) was established, with technical support from the regional government office. After the first success and new members having joined the group, the second producer group was established (Jar Pek Plus – which is analyzed here). Afterwards, when the interest of farmers in the areas grew, further producer groups were established, some specialized in pig production but also in other types of production (crops, cattle). By now there are eight producer groups. All of them have the same person as the director, and the same staff (the accountant and the secretary). All groups are independent, but they form a business cluster. Moreover, a secondary cooperative was established, and the local slaughterhouse was taken over by the cooperatives, which is one of few examples of vertical integration in the pig sector based on a cooperative in Poland.

The initiative and the further development of Jar Pek Plus as well as the other groups heavily rely on the efforts of one person. The director of the groups has the ability to convince the farmers to join. Since this process was started a several years ago, the initiatives received publicity. At the same time, the group explored the new schemes and had to find out how to make use of them. The director played the major role in finding all necessary the solutions to achieve this objective. At the same time, the success was connected with the potential for collective action in the area. There were many farmers that were willing to join the groups.

At the beginning, when the Jar Pek Plus group was established, some members of the group knew each other earlier, since they were from the same area, but most of the members did not know each other. The knowledge about the group and its advantages was transferred via personal contacts, through farmers from particular areas. They were communicating the producer group model of operation and the benefits of cooperation. It increased farmers' interest and brought new members. There were problems at the beginning, with registration and collecting all necessary documents. The director successfully managed to overcome such obstacles. The main problem at the beginning was the restriction on policy support already mentioned above. The subsidy could not be allocated for investments, but only for other activities like trainings, office etc. The group protested and tried to convince the regulators to change it. Finally these restrictions were softened.

In the case of this producer group the snowball effect is clearly visible. The success of the first initiative convinced farmers, and since the entrance fee was small, they joined the cooperative and in most of the cases remained members later on.

The group is recognizable, and is treated as a serious actor in the sector. If members of the executive board have to arrange something they are known by the authorities like ministry or local governments.

The basic economic profile of the cooperative in 2011 can be described as follows:

- Total assets: 359 902 PLN (89 976 EURO)
- Equity: 2 309 432 PLN (577 358 EURO)
- Net revenues: 4 890 363 PLN (1 222 591 EURO)
- Net profit: 17 750 PLN (4 438 EURO)

### **3.2. Structure of the group**

The Jar Pek Plus producer group has the organizational a form of a cooperative. It was chosen because it was better adjusted to the organizational and commercial purposes than a union (a form used for Jar Pek, the preceding group). A cooperative was considered optimal for this producer group, at least at the beginning. A limited liability company was considered being a too demanding form.

The cooperative has a standard structure, consisting of the three main bodies: a) the general assembly of members; b) the supervisory board; c) the executive board. The general assembly has the right to undertake the most important decision concerning the cooperative. It elects the supervisory board. Each member of the cooperative has one vote at the assembly. The assembly is taking place at least once a year. The supervisory board controls the operational activities of the cooperatives and contracts the executive board. It consists of three members (there can be three to five members according to the statutes), all of them are producers. The executive board runs the cooperative in terms of everyday operations. Two members of the executive board are famers with a wider experience in the agricultural market, while the director has no farming background.

### **3.3. The group operations and management**

The group has the clear leadership, with the director playing the most important role. Yet, members of the executive board meet the group members quite often. Farmers present their ideas, and after the discussions and agreements of the general meeting they are taken into consideration, as emphasized by the director. There are no major tensions between members and the executive board. The board members are open for discussions and written complains can be submitted and will be taken into account. Farmers are generally satisfied. The experience from the earlier established producer group helped to avoid troubles later on. The director plays a crucial role, since he is known and appreciated for his efforts and power. As interviewed members of the group declared, they have contact to the director, but this means sometimes saying only a few sentences at the meetings. However, there is no problem with the information flow. Everybody can call the director or the accountant and will get the necessary information.

The information flow does not seem to be a crucial issue for the group members. The members of the group are satisfied because there is equal treatment of members in terms of purchase of the production. Moreover, the development of the group, particularly the acquisition of the slaughterhouse, gave the group members more security and power.

Fairness and efficiency of the marketing are of crucial importance. Although dividing the subsidy for sustaining the group is a sensitive issue, this has been solved by a fair system of decision making. Conflicts arise when deciding on investments. There are always dissatisfied people in

every group, as the interviewed member of the group said. However, discussions help to find balanced solutions.

Everyday decisions are undertaken by the director. In case of a larger purchase, the whole board meets and votes. There is contact between the members of the executive board every day. Taking over the slaughterhouse was very complicated procedure, involved a lot of work, visits to Warsaw, etc. It was the director who tried hard and finally managed to finalize the deal. As the result, the group can sell the production to its own subsidiary.

Usually, the supervisory board meets at least every two-three months, if necessary, more often. The general assembly is held once a year. The yearly report and the plan for next year are discussed at the assembly.

There are not problems with finding staff, as the producer group only hires few employees (the accountant and the secretary).

The group is basically opened for new members. However, there is limitation of subsidy per group. For this reason, founding a new producer group is preferred to accepting more members when the number of members and the amount of turnover are becoming too large.

### **3.4. Perceived benefits of farmers' cooperation**

There is no uniform opinion on farmers' cooperation and producer groups. According to the representative of the lobbying group (union of pig producers in the Wielkopolska Region), cooperation among farmers is a positive idea, but what can be observed in reality is far from this. The producer groups which were established were only looking for financial advantages; as a consequence they were driven by subsidies. Farmers work individualistically within producers groups and as regards their collective action "they are only able to issue invoices". A cooperative group requires common effort and common goals, and these are missing within the existing cooperatives. Moreover, as the representative of the lobbying group argues, purchasers are against groups. The buyers declare the will to buy from groups but when a group appears they act against them. They offer better prices for some members enhancing them to leave a group or to violate the group's rules. Purchasers undermine the groups' stability they are interested in keeping prices low, and the existence of producers groups can make this more difficult to achieve for them.

Contrary to the view presented by the representative of the lobbying group, members of the Jar Pek Plus group see clear benefits from farmers' cooperation. The most important advantage is the possibility of selling their products when acting together. A small producer has little chance in the market nowadays to get a good price and stable farm income. The group helps to negotiate for a better price when selling the products and purchasing fodder and fertilizers. Purchasing a larger quantity enables them to negotiate for better prices. Additionally the group secures selling the production as well as purchasing fodder and fertilizers, even if the individual farmer has temporal financial difficulties. A producer group can adjust prices and profits to the current situation. A group is more flexible, while individual farmers have to accept changes of prices and conditions.

Security of trade and production are the main advantages of the cooperatives in the opinion of the interviewed MP. Delays in payment are a huge problem nowadays, not only in Poland. Companies do not pay in time and later disappear. In such circumstances, cooperatives offer security, since purchases and sales are better controlled and the contracts are repetitive. Cooperative banks also have an important role in the system. More security of producers brings further benefits for consumers and for local communities. Furthermore, cooperation allows for specialization of production. Since the processing industry is integrated, only big producers can realistically participate in the system. A cooperative helps by the cumulating the capital

contributions from individual farmers and adjust the scale and quality of production to the demand.

The group economizes on operational costs. As the interviewed member of the group admits, he now can arrange everything from his village, there is no need to travel for many arrangements. Moreover, using common machinery is cheaper. The group organizes meetings and trainings, e.g. with veterinary experts that would not be available individually.

Furthermore, for the representative of the local government, working with a producer group is more comfortable than to deal with hundreds or thousands of individual farmers, in case of, for instance, compensation for losses caused by extreme weather conditions, taxation issues, etc.

### **3.5. Attitudes of stakeholders towards farmers' cooperation**

According to the members of the executive board, the Jar Pek Plus promotes the idea of cooperation in the region. Apart from the producer groups that are established based on the Jar Pek, in the close vicinity, there are some more initiatives in other sectors, for example, among dairy farmers. They think about establishing a producer group, because they expect financial benefits from such a movement. In Wielkopolska province, there are many producer groups compared to other parts of Poland. Farmers can observe the advantages and can better decide on establishing new coops.

The local government is engaged in the issue of producer group promotion and tries to help them. They are convinced that this is the future of the Polish agriculture. Visits of the local government officials in those EU countries where cooperatives are common (France, Germany, The Netherlands) convinced them that special actions are necessary to enhance farmers' cooperation. According to the representative of the local government, the development of cooperatives is the right direction. Otherwise only some large farms will increase in size and change into corporations, while small-scale farms may collapse.

However, the interviewed MP sees difficulties in the development of producer groups as most of farmers are hesitating to join. The MP believes, that skeptical farmers should visit the existing cooperatives, discuss, and share the experience with those already involved in groups. Training should be focus on this knowledge transfer. His main argument is that although producer groups are successful, it is impossible to convince anybody through theory and abstract documents. This view is supported by the group director. He mentioned that the group has many visitors, even from other parts of the country. However, even the opportunity to meet a successful group seldom leads to establishment a new producer group. According to the interviewed MP, farmers are afraid of being cheated by others. This is visible when investments are considered. Low income and lack of resources are smaller obstacles compared with the lack of trust. Only a few people are able to take risk, to invest.

In Poland, there was a well developed cooperative movement but it declined during the communist times. After 1989, Poland has not managed to regain the potential of cooperatives. Many opponents considered them as being obsolete and belonging to the communist ideas. This position persists in the beliefs of Polish elites. For instance, The Civic Platform (the ruling political party) has advocated transforming cooperatives into capital companies. Nevertheless, the MP believes that it is possible to improve the cooperative sector. In Trentino, Italy, the MP argued, Italian farmers had the same situation, but they have managed to develop the region through cooperatives. In Poland, it will also be possible, but the main problem is the lack of awareness among producers.

To the interviewed MP, the choice of a particular legal form for collective action of a group – a cooperative or another form, is not important. The main requirement is to cooperate. The current policies are focus on producer groups and are in line with the general EU approach. Producer groups consist of specialized producers, while cooperatives are more diverse, at least

in principle. When thinking about development outside cities, cooperatives are of major importance. Producer groups are only one element of this broader issue.

The interviewed individual farmer did not join a producer group because he did not see any benefits for himself, although he was a member of the Peasants Mutual Aid Cooperative. According to him, producer groups did not provide better prices. As a result, costs were safe while the benefits were not. He observed that individual farmers could sell at a higher price compared with members of a producer group. The obligation to sell through the group was considered as the constraint that could bring losses. The farmer considered cooperating with a producer group and gathered information on the benefits and costs, but was not satisfied. He believes that producer groups are only beneficial for those employed there. However, the farmer saw benefits of producer groups in terms of their influence on the market. As the producer groups in the area strengthened the supply side and created more competition among purchasers, prices are better also for individual producers.

The existing groups can serve as good example, thus can encourage more farmers to join or establish a group. Generally bigger farmers find it easier to join the groups. They know that cooperation and larger scale of production help to survive. Smaller ones have more difficulties to comply with the standards etc. According to the member of the executive board, farmers do not believe in getting something for free or, generally, in a better future. They observe each other and wait. Those who wanted to be involved, have already joined the groups.

### **3.6. Opinion on the support for producers' groups**

There are different opinions on the support scheme for producer groups. Producer groups are established in order to get subsidies, according to the representative of the lobbying group (union of pig producers in the Wielkopolska Region). As a result, after five years when the subsidy scheme expires groups would re-establish again, in order to get the subsidy again. Thus, the support for producer groups means wasting money. Generally, most groups will cease as soon as the subsidy expires. The legislation should prohibit closing producers groups when policy support is no longer provided.

According to the representative of the lobbying group, interest and trust are of crucial importance for promoting cooperation among farmers. Farmers need to realize the economic benefits of cooperation and, at the same time, have to be sure that they would not be cheated. The precondition is to assure farmers that the system does not allow deceiving members. The experience is not encouraging however. For instance, farmers were promised to be allowed to establish artificial insemination stations, but when they started, this possibility was withdrawn. Moreover, the purchasers' interest is crucial. If farmers' cooperation is not beneficial for them, it would not work. At the moment, they are not interested.

A similar opinion was expressed by the interviewed individual farmer. To him, the EU supports producer groups substantially and it is the main reason for their emergence. Without the EU support they would not be able to work. Only the guarantee of higher prices when selling products and lower prices when buying production input would encourage farmers to join: "everybody seeks own benefits". He considers it a political decision to have producer groups and, consequently, financial subsidies had to be provided to them. The farmer observed failing attempts to initiate new producer groups. He supposes that the only way to get benefits is to become a member of the executive board.

Contrary to these rather skeptical opinions, members of the Jar Pek Plus group argued that the EU financial support helps to decrease the costs of production and really help the farmers. The most serious problem regarding the support occurred at the beginning, when using the support for investments was not allowed. After the struggle this was changed and production subsidies

enable common investments, for example, buying a combine harvester or a drying room. This generates income and helps the group members.

According to the representative of the local government, existing regulations concerning the support to producer groups look reasonable. As the regulations are flexible enough, new groups are established and will work. As for the local government, there was no indication of any problem with the support scheme.

The interviewed MP presents an ambiguous position in this respect. He states that the cooperative sector in pig production collapsed after 1989. Processing is controlled by international and large Polish companies. Producers are not shareholders in these companies what is the weakest point in the system. A positive example is the slaughterhouse taken over by the producer groups (Jar Pek). This is the path for further development but it was very difficult. It was necessary to lobby hard, and even the vice prime minister was engaged in this. According to the MP, the Polish law does not help cooperatives sufficiently. Cooperatives have little political support and most of the legislative initiatives in favor of cooperatives collapsed. Among political elites there is little awareness of the importance of cooperatives. Similarly, the member of the group saw little legal flexibility in Poland. The EU legislation is more important and this was experienced when buying the slaughterhouse. Some regulations had to be changed, but it was difficult. There was a lot of red tape, a lot of administrative forms to fill.

The most comfortable situation is for the fruit industry, in the opinion of the MP, since investments can be supported up to 75%. Several groups already invested within this scheme. Also for the pig producers the support is fine. According to the producers' assessment, the only need is the willingness and the ability to use this opportunity. The situation will change for worse. In 2014-20 the support for producer groups in the fruit sector will be smaller. In his opinion this support should not be shrunk and rather be extended to other sectors. Also the other interviewees shared the concern that the support would decrease in the future. The representative of the local government considered future policy changes f policies towards enhancing cooperation as being uncertain. For the member of the group, problems would arise when the subsidies for sustaining the group expire. If office costs were expected to be covered by the members, the smaller producers would defy. They would not like to pay for the director's salary. However, the member of the group did not have a vision on possible legislative changes to enhance producer group development.

For the group, further support is required to invest in processing since the group has the slaughterhouse. Some support was provided by the local government. For example, a mutual credit fund was established backed by the local government and it guaranteed the group loan.

Also, according to the members of the Jar Pek Plus group, Polish meat should be promoted. A certification showing the country origin of the meat would be helpful. There are companies which offer certification but they require conditions to be fulfilled concerning genetic material, fodder, etc. It is too risky to follow, since in some years' time these animals would be difficult to sell.

### **3.7. The role of the “grey economy” in the development of producers groups**

According to the representative of the lobbying group (the Union of Pig Producers in the Wielkopolska Region), farmers try to sell some of their production outside the group and try to avoid paying taxes. Changing this is considered hopeless. In the interviewed MP's opinion, the grey economy has negative consequences for cooperatives. At the beginning of the 1990s, this was particularly crucial. Cooperatives had to provide documentation of the trade, taxation etc., while the private sector was much less controlled. Currently, cooperatives comply with the standards of accountancy and therefore cannot compete with the grey economy.

There were some legislative initiatives clarifying that only producers could be members of a cooperative. Tax reduction would only be given to producers and non-farmers only searching for a tax reduction would be excluded. These proposals have failed so far. Even in the agricultural ministry there is little understanding of the issue.

### **3.8. Competition on the market**

The competition in the pig market was not considered as being tough, although in Wielkopolska it is stronger compared with other regions, according to the members of the executive board. Since the group has its own slaughterhouse its position becomes relatively stronger. Owning the slaughterhouse was only achieved through cooperation. The groups together became an important actor on the market.

In Wielkopolska region, there is no real danger of tough competition among producer groups since the groups cooperate. There is more cooperation than competition. Real competitors are some huge slaughterhouses with the ability of influencing prices. They are a threat for producer groups. Another problem is imports. Overproduction in some countries can flood the Polish market with cheap meat. There is a visible impact of the European market. If the price in Germany is higher, it is higher in Poland too. Also exchange rates influence the prices. The member of the executive board assumes that price regulation could be a solution to help producer groups (an unrealistic option because it would be against the rules of the EU common market).

## **4. Description of the third case: Krobia**

### **4.1. The establishment of the group**

The Spoldzielcza Grupa Producentow Owocow i Warzyw dla Przetworstwa Krobia (Producer Cooperative of Fruit and Vegetable for Processing - Krobia) is a producer group having the form of a cooperative. It was established on the base of the tomato producers union that existed from 1958. The reason for establishing a producer group was the possibility to get subsidies on tomato production after Poland's accession to the EU in 2004. The cooperative works in the field of vegetable production for processing – tomato, sweet corn, pea, carrot and white carrot and parsley. The overall amount of vegetables produced by the cooperative was 51 560 tones. The most important product is tomatoes – this cooperative produces  $\frac{1}{4}$  of Poland's production for processing, this is about 45 000 tons annually. The cooperative has 232 members with an average land area of 15 ha, and overall area of 3480 ha. The area of vegetable production for processing (with contract for the production) is about 1000 ha.

Practically, all produced vegetables are sold to HJ Heinz Poland company. In case of a season with very good harvest, further cooperation is established with Cinna Health Products ZPOW Rolfoz and ZPOW Davtona companies.

The processing companies implemented the secure food production system HACCP (Hazard Analysis and Critical Control Points). As a result the cooperative is also obliged to keep the high quality sanitary and environmental standards during the production process.

During the establishment of the cooperative organizational meetings took place in which members had an opportunity to take part for working out the rules and regulations of the cooperative. Especially, the first meetings were important in terms of organization. Since the cooperative was established on the basis of an existing union, it had a good foundation as regards both financial and organizational aspects, and because people in the area had a tradition of cooperation.

### **4.2. Structure of the group**

The decision-making bodies of the cooperative are the standard ones: general assembly of members; supervisory board; and executive board. Since the cooperative is large, according to the cooperative law, 50 representatives are chosen for the general assemble at four local meetings. General Assembly is held once a year, before starting the contracting season. The supervisory board or one fifth of the members can call for organizing the General Assembly meeting.

The supervisory board meetings are held 4-5 times a year (4 meetings annually is required by the statutes). Supervisory board consists of 15-20 persons (currently - 16), chosen by the General Assembly for four years term. The supervisory board chooses the members of the executive board.

The executive board consists of the director and two members. There are also a book-keeper and a secretary employed. The director and the book keeper are no farmers and are in charge of management and accountancy without having a producer's background. Most of the operational decisions are taken by the director, the chairman of the executive board, who is the legal representative of the cooperative. The director has the prominent role in the group, being an active and dynamic leader. He has cooperative experience (he was a member of a cooperative), and he was born and has lived in the area.

Apart from these forums, there are smaller groups – committees, established for buying, contracting or financial matters. The contracting committee, involved in contracts negotiations, is of special importance.

The cooperative is theoretically open for new members, however the produced vegetables have to be sold under the contract with the Heinz company, and this precondition limits the size of the cooperative. New members appear mostly when a farm is inherited, as it was mentioned by the member of the executive board. The fee for entering the cooperative is symbolic in nature (50 PLN (app. 12 EURO), while the shares value is 200 PLN (app. 50 EURO).

The basic economic profile of the cooperative in 2011 can be outlined as follows:

- Total Assets: 47 200 PLN (11 800 EURO)
- Equity: 1 362 117 PLN (340 529 EURO)
- Net revenues: 17 589 618 PLN (4 397 404 EURO)
- Net profit: 219 952 PLN (54 988 EURO)

### **4.3. Operations of the group**

The information flow within the cooperative is satisfactory, according to the interviewed members of the group. Due to the size of the group, basically during the yearly general assembly meeting all members can have a voice. There is an everyday contact via telephones and SMS with the executive board, thus everybody can get information on the functioning of the group, planned courses or events. The office of the group is the meeting point and producers visit often the members of the board. Additionally, members know each other – this also helps in keeping the information flow.

As there was a functioning Union, before the cooperative was established, people were used to cooperation. None of the interviewed persons could recall serious problems within the cooperative. Small misunderstandings however occur. The most important ones are connected with the delivery conditions. Delivery deadlines are strict – fixed in the contract with the processing company. These conditions are difficult – sometimes not even possible to fulfill. There is financial punishment (not very hard) system introduced to ensure the continuous delivery for the processing. Since the beginning of the coop's existence, there were two members leaving the coop, they now deliver their produce directly to the processing company. They formed a kind of opposition and apparently tried to establish an alternative group but were not successful.

### **4.4. Perceived benefits of farmers' cooperation**

All interviewed persons agreed that the most important benefit from the producer group is the negotiating power. Since the group is large – about 230 producers – the producers also can influence conditions during the negotiation because the processing company is also dependent on the cooperative. Even during the difficult economic situation the prices were not decreasing thanks to successful bargaining. These are negotiations on equal footing, which would not be possible without the producer group.

The representative of Heinz company thinks that it would be extremely difficult and time consuming to negotiate and prepare 240 contracts, inform all the people and transfer money to each farmer separately.

The cooperative gives its members the feeling of safety. Apart from negotiating, the group also can react on some other problems. An example of such a situation can be protesting against a planned brown coal mine development in the vicinity which can be a threat for the producers.

There are courses organized, presentations on new technologies, plant protection, fertilizers and machinery use. Also fertilizers are bought at the cheaper price, as the interviewed coop member and the member of executive board mentioned. The group members can get modern equipment for spraying, cheaper, environmentally friendly plant protection chemicals, boxes for tomatoes. They can also send soil samples to Poznan for free analysis during the whole year. The cooperative can develop, i.e. improve every year by avoiding the mistakes from previous years, and it makes it easier for their members to plan together.

Furthermore, there is an advantage from coordination. At the time of delivering the tomatoes to the company many producers have to do it within restricted time (since delays are punished). As a result, previously there were queues and farmers had to wait even several days. It is organized now by the group and saves time and helps to avoid conflicts.

Although all the benefits mentioned above are important, the EU subsidy for tomato growing for producer groups was the main reason for establishing the cooperative.

#### **4.5. Attitudes of stakeholders towards producer groups**

There is a good environment for producer group according to most of the interviewees. In the opinion of the group member, other groups of farmers, milk and pig producers also should be organized in producer groups. However, individual farmers, outside the group have a different opinion. They are skeptical about producers' cooperation. Their knowledge about producer groups is very limited.

Heinz Poland and the cooperative are counterparts in the negotiation process. The relationship between the group and the processing company has a historical background and a promising future. According to the representative of the processing company the group misses some business opportunities. He thinks that similarly to the cooperatives in the South of Europe, cooperatives in Poland should invest in sorting machines, delivery arrangements and new technologies. He thinks that Polish cooperatives were established for getting the subsidies on tomato growing during 2004-2007, and now they function only by routine. They persist because of the hope that something can change later on during the planned CAP reform. He argued that apart from negotiation procedures the cooperatives should start up with some initiatives and business ideas to provide farmers with wider offers and opportunities, otherwise members will leave.

#### **4.6. Opinion on the support to producers groups**

All interviewed coop members, and the executive board member, agreed on the support not being satisfactory for producer groups. When the cooperative was established there was a subsidy from the EU. However, as this money went through the processing company, the cooperative never collected the whole amount as the interviewed group member noticed. Later it was given by the Agency of Modernizing and Restructuration of Agriculture. However, the current form of application for the operational funds is very difficult, and few groups in Poland are successful.

The members of the executive board suggest that there should be a support in the negotiation process. As an example, a strict contract signing deadline should be established to prevent that the processing company can use timing as a negotiating strategy (via postponing its decision). In such a way the negotiation would be much less stressful. The member of the executive board argued that attracting another processing company in the vicinity competing with the existing one could also lead to an improved action situation for the cooperative.

Another kind of support should be given via marketing and promoting local products. This would mean introducing some quality requirements for the products, or organizing an

awareness campaign or implementing tax reduction measures. These measures could help in selling more local products and less imported ones.

The representative of the processing company was involved in legislation of the producer group during the years 2002-2004. However, later on, he was no longer interested has and gained little knowledge in this area. He thinks that following the example of western European countries producer groups should be strengthened since he considers this the best way of developing agriculture. Producer groups are important, they can develop individual farmers, whatever product they produce.

For the EU, the support scheme is very bad since the scheme was frozen in 2007 and not updated ever since. Tomato producers operating one hectare land fill the form once and get the subsidy which is maintained throughout the following years at the same level. If a producer was registered for a subsidy of 1000 tones of tomatoes, he has got up to date a support of about 200 000 PLN per year. This money can be obtained even if the person in the meantime produces a smaller amount. This policy was supposed to give some support to enhance further investments in tomato fields, but in present design it is not at all effective.

#### **4.7. Competition on the market**

In the region there is no producer group which contracts the same processing company. The nearest producer group is in Sroda Wielkopolska, but there is another processing company buying from them. Only those two producers who left the coop still sell to the same processing company. Although this can be interpreted as competition, the member of the executive board argues that their production is about 5% of the regions harvest, while the cooperative produces 95%. Thus they do not represent relevant competitors.

Though there is no direct local competition, a realistic problem is international competition - influencing the choice of the processing company. If Heinz Poland starts to use cheap tomatoes from China, then the existence of the cooperative is endangered. The cooperative's production prices are at the average EU level. However, in Poland climate is less favourable and all additional costs, like plant protection, are growing and higher than in the South of the EU. The cooperative is dependent on the processing company. If Heinz decides that it is not profitable buying Polish tomatoes, the production cannot be sold any more. Such a situation occurred in other tomato producing parts of Poland where there is already a deadline when the processing company will stop working. The only chance of avoiding this situation is working out special policy measures – promoting local products, and public awareness campaigns on the importance of regional production.

## **5. Analysis by comparison**

This study deals with the issue of sustainability of the newly established (after 2000) agricultural cooperatives in Poland. The impact of the EU policies and internal governance structure were taken into consideration. Specifically, basing on the earlier studies, the collective action problems and the leadership were analyzed as important factors influencing the sustainability of cooperatives.

Three cooperatives were chosen for the analysis: a) Sady Krajny established in 2005, a production group specialized in fruit production; b) Jar-Pek Plus, specialized in pig production, established in 2007, and c) Krobia established in 2003, specialized in a vegetable production, mostly in tomato. All chosen cooperatives can be considered as successful. They function and develop without a serious danger of collapse, at least in a short-term perspective. All three cooperatives are producer groups having the legal form of a cooperative.

The cooperatives differ in some respect. They cover three different types of production: pig production; tomatoes (vegetables); and fruit. The cooperatives emerged in different traditions. Jar-Pek plus was created in the area where farmer circles' cooperatives existed, and it was based on earlier established producer group Jar Pek - union. The Krobia cooperative also emerged on the basis of an earlier well functioning union. In the region of Sady Krajny there was little tradition of cooperatives, however, there was a need for common action of fruit producers.

### **5.1. The role of the support in establishing a cooperative**

In each case the most important factor determining the emergence of the producer group was the possibility to get support. In case of the Sady Krajny and the Jar Pek Plus groups, the coop establishment was linked with the idea of investments. The cooperation was meant to help the producers in terms of technical and logistic equipment. Strengthening the producers' position was undertaken through the development of technological structures. Receiving direct subsidies was a less important objective compared with the Krobia group (producing tomatoes) where subsidies for production were apparently the most important factor, beside increasing bargaining power by collective action.

In each case the group would not have emerged without the EU support schemes. Internal factors such as local cooperative tradition and the economic conditions had a supplementary role. In two cases (Krobia and Jar Pek Plus), the groups were established in areas that has a cooperative tradition, and by people (at least some) with some cooperative experience. Thus, the initiative could rely on this background. However, in the third case (Sady Krajny) there was no similar tradition (though the bank which initiated the coop establishment was a cooperative bank). This suggests that the support schemes are of crucial importance, and initiatives are driven by the incentives offered by government policies. In fact, the existing cooperative tradition would suggest that establishing a new cooperative would be easier (and cheaper) in such a region, since knowledge on cooperative institutions (formal and informal) is available. The interviews show, however, that this knowledge can be neutralized by the negative experience from the communist past, and cooperative tradition represents a legacy that has to be overcome.

In each cases establishment of a cooperative is economically justified. It leads to a better position of the engaged producers. However, the very economic potential would not be enough to establish a producer group.

## **5.2. Structure of the groups**

The structure of the groups is similar. They are based on standardized documents. This is understandable, since standard statutes of a cooperative are available and lawyers' consultations are expensive. The cooperative form was assumed by the groups as it was fitting the circumstances, but alternatives were not deliberatively considered. It was seemingly not a very purposeful decision. In case of Krobia and Jar Pek Plus, the cooperative was taken "by default". In the Sady Krajny case, the initiative came from the cooperative bank which was important for the foundation process.

The structures are similar in terms of the decision making bodies but also in terms of their relative power. In each of the group the director plays a central role; the director is the chairman of the executive board. This position is taken by a manager, not a producer, while other members of the executive board are producers. The supervisory boards consist of producers. A specific solution can be found in the Krobia group where committees are established mainly for consulting and approval of contracting and investments. This particular design is due to the size of the group (more than 200 producers). For the director it provides legitimacy of the important decisions.

## **5.3. Leadership**

The main difficulties of the producer groups' sustainability noted by Banaszak (2008), the collective action problem (mutual distrust and problem with norms compliance) and the leadership problem (adequate compensation for a leader's effort) were solved in the analyzed cases in a similar way. In each case the demand for a producer group establishment was driven by the availability of EU support. The initial distrust towards cooperation had to be overcome. It was achieved through intense, personal communication done by a dedicated, committed, and locally known person. Moreover, in each case the leader was not a producer. Thus, they were independent and their success depended on their capacity to establish and sustain their groups. All leaders have appropriate personal capabilities as they have very good communication and manager skills. Nevertheless, without a local background, they would not be able to convince the farmers to join. The interviews showed that the fear of being cheated is pervasive among farmers.

For the sustainability of the groups the most important factor is that the directors (all of them) have similarly strong positions at the operational and strategic level. At the operational level, they are able to manage the group, since they are not engaged by their own production. They have enough time for this and it is their main task. They are able to take care of the group interest without being personally involved. It is particularly important for achieving rule obedience by members. In each case penalties have been institutionalized (for violating the rules, e.g. not selling through the group). This was feasible because of the independence of the directors. In addition, non-compliance was no crucial issue. Therefore groups could be kept together without major frictions.

Leadership is also visible at the strategic level. The directors are committed in searching for solutions in order to achieve strategic goals. For Sady Krajny it was the development of a logistics centre. This required intelligent and innovative ideas as they were facing immense obstacles (regarding a loan and land use planning and obtaining the building permits). Similarly, the Jar Pek Plus director enforced a very ambitious vision and was able to overcome major difficulties. The group was struggling to change regulations they considered unacceptable. The very dense and incoherent regulatory environment required the will and commitment to "muddle through". Only a paid and independent manager can operate successfully under such conditions. This would be difficult, or even impossible, for a director who has to share his effort between his own farm and the group.

Another issue connected with leadership is knowledge on administrative and accountancy procedures. Farmers have little competence and willingness to deal with these issues, and moreover it is not economic for each individual farmer to study the regulations in a changing political environment. The clear benefit gained through an appointed leader is that this person can do the administrative work instead of the farmers. The scope for economizing on these tasks is substantial. One unit of administrative staff consisting of three persons serves eight producer groups.

#### **5.4. Perceived benefits**

The perceived benefits from the groups slightly differ case by case, depending on the type of production and other factors. Marketing advantages of the groups are recognised in all groups, with the Krobia having a clearly better bargaining position in contacting. The groups offer and promise more security in terms of reliable marketing of the products. It leads to more stability of production. This is visible in the cases of the Sady Krajny and Jar Pek Plus. The groups' investments and organization are intended to stabilize and increase the income of the producers. For the Krobia group the main advantage is the strengthening of the bargaining position of a large number of producers in a monopsony market. It could be argued that Sady Krajny and Jar Pek are forward looking, and they use the producer group and the EU support to reinforce producers' market position, taking into account unfavorable predicted changes. Sady Krajny expects quality (not the price) to become a decisive criterion in the future, and they aim at making more contracts with supermarket chains. The strategy of Jar Pek Plus is to complete vertical integration, finally selling the products under their own trade mark. Contrary to these two cases, Krobia's strategy is defensive. They have to sustain their production, having not a real alternative option to sell. Also, vertical integration does not seem to be a reasonable option. As a result, the group is not threatened by cheap competition from local producers, but by potential closure of the processing factory of the purchaser or increasing import of cheaper tomatoes from the Southern EU or third countries). For this group the direct subsidy, increasing income, is of major importance.

#### **5.5. Support**

It is virtually accepted that the support schemes are the major factor enhancing the farmer willingness to cooperate. The general opinion on the effectiveness of the support is divided. For members of the groups it is a measure to support agriculture, farmers and it works generally well. For some outsiders, the support to the producer groups is ineffective in the long run. For them producer groups are artificial entities established only to consume the available subsidies. In some stronger formulations the support it is the abuse of the public money.

Interestingly, the existing regulations are basically accepted as satisfactory. There were some changes introduced, the most important one was the allowance to spend money for investments, and the systems works well nowadays. It seems that the procedures were tested and the "users" studied how to do it. The learning period was by no means easy. Investing appeared to be difficult also in terms of bank loan and guarantees. But now, the groups have the knowledge on it, which gives them self-assurance feeling. Moreover, this knowledge gives the existing groups the competitive advantage vis-a-vis other producers.

There is the anxiety about the future solutions on the EU support. In the case of Krobia the worry was the strongest. The continuation of the support is expected. Without it, the possibility of disintegration of the groups was expressed (which is expected by the outsider critics of the producer groups, anyway).

## **5.6. Grey economy**

The impact of the producer groups on the grey economy does not seem to be serious. It decreases the grey economy since the producer groups need to follow the accountancy regulations. To the interviewed MP it helps the producers, since the grey economy favors free riders and decreases total income of producers. For the members of the groups it had marginal importance though.

## **5.7. Competition**

The competition was not a direct reason to start a producer group in the analyzed case. In the Sady Krajny case the competition was not a big concern. It is partially connected with that fact that international competition in the fresh fruit market is not strong in Poland and the sector is not consolidated. In the two other cases, Jar Pek Plus and Krobia, competition plays a larger role, mainly international competition. In the pig market, which very fragile and unstable in Poland, this impact is observable because of overproduction in other countries, e.g. Germany. Large amounts of cheap pork coming occasionally to Poland undermine market stability for the producers. Lack of regulation in this respect was serious concern. Also, at the national level, big slaughterhouses are able to manipulate the prices. These reasons motivated the cooperative to develop vertically integrated structures that helps to insulate against pressures from the volatile markets.

The Krobia is the case where the influence of the international market is also visible, although the impact is potential. The group sells almost all the production to one purchaser. There is no alternative purchaser, while the purchaser can buy tomatoes from other countries where production costs are lower. Ultimately, production may be reallocated to other countries. The group has little room of maneuver to counteract since it is too weak for establishing vertical integration.

## **5.8. Results of the hypotheses testing**

Considering the hypotheses proposed in the introduction, the following conclusions can be drawn:

- H. 1. Economic necessity is a condition for the establishment of a producer group and for making it sustainable

In all analyzed cases, there was economic pressure. When working independently, producers would have to accept losses in terms of lower income or possible market disadvantage in the future. If Sady Krajny would have decided to work alone, it would have not been able to enter supermarket chains – the dominant form of marketing. For Jar Pek Plus working alone would not have enabled them to secure marketing opportunities and to receive better prices. For Krobia, an individual strategy would have made production less profitable. However, these economic considerations were existing for years and they did not clearly lead to the establishment of other producer groups. -

*The hypothesis is partially corroborated.*

- H. 2. A tradition of cooperation is a precondition for the establishment of a producer group and for making it sustainable

In two of the cases (Jar Pek Plus and Krobia) there were traditions of cooperation, while in the third case – there was not. In all the cases the groups were successfully established. - *The hypothesis rejected.*

- H. 3. Leadership is a precondition for the establishment of a producer group

In all the cases there was a charismatic leader, starting the group and running it afterwards. Without these leaders, their skills, and commitment the groups would have probably not emerged. - *The hypothesis is corroborated.*

- H. 4. External enhancement is a precondition for establishment of a producer groups and for making it sustainable.

In all of the cases possibility to obtain the financial support was apparently the main incentive to start establishing a group. Moreover, technical support from the regional government office was important in the initial arrangements. - *The hypothesis is strongly corroborated.*

- H. 5. A group structure allowing close contacts among members and mutual control and - consequently - rules enforcement (overcoming the collection action problem) is a precondition for making a group sustainable

The group structures do not specify possibilities and necessities for close contacts among members. However, information flow is good which is partially due to informal, occasional contacts and contacts through the executive boards (particularly through the directors). The rules of cooperation are enforced by direct supervision, while enforcement by members does not seem to play the major role. - *The hypothesis is rejected.*

- H. 6. A group structure established by members that is appropriate to deliberately secure overcoming the collective action problem is a condition for making a group sustainable  
Despite certain differences between the groups their internal structure are standardized and similar. There are little special arrangements designed to overcome collective action problems. - *The hypothesis is rejected.*

- H. 7. A group structure with clear leadership positions in order to secure overcoming the collective action problem is a condition for making a group sustainable  
In all the cases clear leadership was a crucial factor in convincing potential members and establishing the group. Also in the course of the groups' operations the role of the leaders was essential. - *The hypothesis is strongly corroborated.*

- H. 8. A group structure with efficient mechanisms to punish noncompliance is the condition for making a group sustainable

The role of the leaders in the enforcement of compliance with rules is crucial. The administrative procedures are of secondary importance in this respect. Sanctioning non-compliance is clearly the responsibility of the directors. - *The hypothesis is strongly corroborated.*

- H. 9. Perceiving cooperation as being driven by the shared beliefs (e.g. on moral superiority of cooperation over individualistic competition) is a precondition for making a group sustainable

In all cases the firm economic basis of the cooperation was accepted as crucial within producer groups, though the case of the fruit producer group the most important factor was safety. There was very little non-economic rationale mentioned. - *The hypothesis is rejected.*

- H. 10. Positive attitudes of local stakeholders towards producer groups is a precondition for making a group sustainable

In all cases there was a positive attitude and help to the groups from the administration, the regional government office, the local governments, form the local bank (in case of the Sady Krajny); from an MP. However, the representative of the pig producers lobbying group had a negative opinion on the producer group. The farmers outside the groups were also skeptical.

Altogether, the attitudes of the stakeholders do not seem to have substantial impact on the sustainability of the groups. - *The hypothesis is rejected.*

- H. 11. Positive attitudes of national stakeholders (elites) towards producer groups is a precondition for making a group sustainable

The attitude of the political elites towards cooperatives is not overwhelmingly positive. At the moment the largest political party has a neutral or negative approach towards cooperatives. Several attempts to pass legislation favorable to cooperatives failed. - *The hypothesis is rejected.*

- H. 12. A support system that requires little technical knowledge for being used is a condition for making a group sustainable

The use of support system demanded substantial investments in terms of time and efforts. For instance, after a long struggle the ban on using policy support for investment was cancelled. The members of the executive boards consider the system simple, but it is due to their experience with policy implementation. For the outsiders (even for the groups' members) it is rather obscure. Partially, the difficulties could be overcome at the beginning due to the technical help from the regional government office. - *The hypothesis is rejected.*

- H. 13. A support system that provides security in the long run is a condition for making a group sustainable

All the groups expect policy support in the future and are aware of future changes of the support schemes. However, two groups, Sady Krajny and Jar Pek Plus, invested substantially and possibly can manage their future development without external help. However, expiring financial support could cause disturbances. - *The hypothesis is partially corroborated.*

- H. 14. A support system that allows using subsidies for investments is a condition for making a group sustainable

Two groups, Sady Krajny and Jar Pek Plus did substantial investments. This has helped to get the momentum. Investments need hard decision, which also contribute to the coherence of the group. - *The hypothesis is corroborated.*

- H. 15. A support system that is focused on organizational assistance is a condition for making a group sustainable

All groups classified the financial support that only aims at organizational assistance (office staff and office costs) as being of the secondary importance. This may be due to the help the groups got from the regional government office. The groups struggle for being allowed to spend money for "more concrete" purposes. - *The hypothesis is rejected.*

- H. 16. The existence of a shadow economy is a condition for making a group sustainable

There was little direct influence of the grey economy on the operations of the groups recognized. This issue seems to be of little relevance for the sustainability of the groups. - *The hypothesis is rejected.*

- H. 17. Growing national and international competition is a precondition for making a group sustainable

All groups are exposed to national and international competition and perceive this as a serious challenge. However, competition was not a primary cause for starting the groups and probably would not have been a crucial reason for sustaining them. - *The hypothesis is rejected.*

## **6. Discussion (reflection on findings)**

This qualitative study focuses on the factors influencing the sustainability of newly established producer groups in Poland. Three successful cases were taken into the analysis: a) Sady Krajny established in 2005, a production group specialized in fruit production; b) Jar-Pek Plus, specialized in pig production, established in 2007, and c) Krobia established in 2003, specialized in a vegetable production, mostly in tomato. The impact of EU policies and internal governance structure were taken into consideration. Specifically, based on the earlier studies, collective action problems and leadership were analyzed as important factors influencing the sustainability of the cooperatives.

The cases taken for the analysis vary in several respects, but they are successful, which means that collective action and leadership problems had been overcome. The impact of seventeen factors was examined. Several conclusions can be drawn.

Firstly, as it was hypothesized, appropriate internal governance and supportive institutional context are the most important factors for the emergence of new producer groups and their functioning. External support in the form of the financial support schemes is significant. All the interviewee agreed that without financial support the groups would not be set up. This is also mentioned by skeptics for whom producer groups are not a good solution. They think, however, that the existing groups emerged to obtain the subsidies. The perspective of getting support was very important at the moment when the decision on establishing a cooperative was taken. It is also very important for the proper functioning of the groups. It is not obvious, however, how the groups would operate without support, whether they would have been able to achieve the critical mass and to function without subsidies. Two of the cases that decided to invest substantially are possibly able to survive in the market. The third one might lose rationale without continuation of policy support. Nevertheless, even those ones that invested may lose members if financial subsidies are no longer paid. The members of the groups and their management are aware of upcoming changes of European agricultural policies.

While external financial support is one crucial factor for the establishment of producer groups, leadership is the second one. In all analyzed cases the groups were organized by committed and charismatic leaders. All of them were known and accepted locally. None of them was a producer. They became directors and have relative independence and substantial operational power. It is clearly the same pattern in all three cases.

Thus, external financial support and availability of engaged leaders are two main factors that have led to the success of the groups.

Secondly, the design of the support schemes is basically accepted. The exception was the ban on the investment. It was strongly opposed by the groups and finally abandoned. Otherwise, there was no major criticism of the support. It can be argued that availability of financial support was most important as the Polish countryside is short of money. As a result the flexibility of the beneficiaries is high. The obstacle in establishing further groups was seen in the mentality and inability to set up cooperation. The attributes of the support schemes were not seen as a main problem. Competition is also not a crucial problem for the groups, and it seems to be equally significant for the groups and for the individual producers. Elite capture had little relevance for the analyzed cases. Jar Pek Plus is open for new members, within the wider structure of other producer groups (eight of them altogether). Two other groups are rather closed, but in the Sady Krajny area other groups could be established. Such attempts failed due to difficulties in finding leaders. Krobia is also closed, because of the monopsony market with limited demand. Although elite capture seems not to present in the cases, other related issue can be problematic. As the leadership is crucial and the conditions for a successful leader are quite strict, the supply of

leaders is limited. Perhaps the groups established first get all available resources – a leader and producers willing to take risk, comparable to a “the winner takes all” situation, where subsequent attempts fall short of necessary resources.

Thirdly, the government intervention is basically helpful for establishing producers groups, but this is only true in a narrow sense and in a short-term perspective. The financial support provided induced establishment of the groups, and technical assistance from the regional government office was also helpful. In the longer run, continuity of support schemes is uncertain. This is in line with the general unpredictability of government policies which often changes the rules of the game. To a certain extent, farmers see the support as the temporally available occasion which may disappear. Some farmers take a risk and join the producer groups while many expect that the support may disappear leaving the members with liabilities. Moreover, the general attitude of the political elites and legal environment is not in favor of cooperatives.

Fourthly, leadership is not only necessary for establishing a group but also plays a fundamental role in the enforcement of rules and trust building. Since distrust is a serious obstacle for farmers' cooperation, the strong position and relative independence of the leader (the director – the chairman of the executive board) is the measure to cope with this problem. The director's position represents a specific combination of attributes. He is a person locally known (so having some level of initial trust), and not a producer (so being independent). The management structure gives the director the clear task of ensuring that the rules will not be broken by single members. All directors do this stressful job. Since stable development of their groups depends on rule compliance and their income depends only on the group, there is a strong incentive to act in case of rules breaking. This is also related to the dominant position of the leader, in terms of knowledge, initiative, communication skills, etc., compared with other members of the producer group boards and the members.

Farmers assume a short time horizon appreciating a direct deal and also have a cash-centered view. They try to avoid banks and prefer payment in cash. They leave all accountancy and administrative tasks to the director. At the same time farmers (at least some of them, even in the existing groups) are not willing to cover the costs of managers. This resembles anthropological research on rural economies which revealed the view prevailing in traditional rural societies that farm management is “no real work”, so it need not be paid. The reluctance of farmers towards paying the manager is overcome by the fact that the director really reciprocates for his salary. In this way, his job is accepted and there are incentives for the director to work economically. Characteristically, there are few people employed – 2-4 per cooperative. Although the directors are not producers, which gives them neutral position, their children and family members work for the cooperatives. It may be associated with well-known dangers (nepotism) but at the same time it creates additional motivation for the director to take care of the group's prosperity. Altogether, this can be regarded as a centralized solution where the strong leadership is an institutionalized device to keep the group operational and to enforce the rules. Since the directors are outstanding in terms their skills and positions, it could cause a crisis when they leave their position in future.

Furthermore, the establishment of further producer groups may be difficult since the supply of appropriate leaders is scarce. It can be argued that the first groups established are in the “winner takes all” position. They collect the most active producers and engage the qualified leaders available. This would leave the later adopters with little resources left. As the director of Jar Pek Plus noted there were few followers, although many visitors in Jar Pek Plus were observing their success. At the same time, in their case there was a snowball effect – more groups were set up by simple replication.

Finally the role of knowledge is interesting. Dealing with the support schemes requires competences in law, economics, accountancy and other technical aspects. The interviewed

leaders from the groups declared that the regulation is satisfactory and easy to follow. The ordinary members that had little knowledge and considered it as being difficult, and outsiders, e.g. individual farmers, had little understanding about it. The executive boards and particularly directors act as the competence centers in this respect. A striking example is Jar Pek Plus, where few people manage eight producers groups. It suggests that knowledge and skills once gained can be repetitively used with little additional costs. The division of labor in this respect is very efficient.

## **7. Conclusions**

The results of the study on the factors influencing the sustainability of newly established producer groups in Poland are generally in line with the analysis done by Banaszak (2008). She argued that collective action problem and the leadership problem are the main obstacles for Polish producer groups functioning. This study shows that the obstacles can be overcome, if two conditions are met that lead to successful establishment of the cooperative. The first is support schemes for producer groups that offered external financial incentives. The second condition is a clear leadership structure, where the leaders are not engaged in production and are responsible for the stability and development of the groups. Other factors analyzed are important but not sufficient conditions.

Nevertheless, one has to be aware that the causality presented can only be treated as conditional, since there are many intervening sometimes idiosyncratic factors. Also, the time horizon of the analysis is short – the new rules after 2014 will be a test for the groups' sustainability.

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# Appendices

## Questionnaire

### I. Research questions for Co-op Officers and members

1. Managerial Board member – president  
A) COOP STRUCTURE - leadership
  1. What are the main indicators of success in case of a co-op?
    - a) Increasing turnover of the co-op,
    - b) Increasing market share,
    - c) Increasing surplus (margin) of the co-op?
    - d) Increasing number of members,
    - e) Increasing number of employees,
    - f) Increasing quality and number of services fro members,
    - g) Other, please, specify:
  2. What are the main requirements/conditions for a successful co-op (PO/PG)?

Advantages	Not important	Marginal importance	Very important
1. Real economic necessity (its rationale is not only to get EU/national support)			
2. Willingness to co-operate – demolition of mental/psychological barriers			
3. Screening of potential members,			
4. Strict and exact quality and quantity requirements for products delivered to co-op/producers' groups			
5. Consistent adherence to delivery obligations,			
6. Ensuring balanced (liquid) financing both short- and long-term			
7. Trust among the members			
8. Trust (loyalty) between members and President/Board			
9. Trust (loyalty) between members and management			
10. Homogeneity of members			
11. Assertive membership			
12. Good (professional) management			
13. Efficient and multi-way communication with members			
14. Other, please specify			

3. Did most of the initial members know each other before?
4. Were all initial members involved in planning conditions for COOP?
5. How new members are recruited? Is the COOP open for new members?
6. Who are members of the management team?

- a) Members, farmers - how many?
  - b) Professionals, full or part time - how many?
  - c) Other
7. Who takes the most important decisions? (Signing a long term contract, establishing a new processing unit, selling additional quantities of products.)
- a) the leader (president or executive manager?)
  - b) assembly of management (majority voting or agreement)
  - c) assembly of all the members (majority voting or agreement)
  - d) members themselves
8. How often are meetings of the management?
- a) Regularly (if not once a year, please specify!)
  - b) When there is a necessity
  - c) No meetings
9. How often are meetings all members?
- a) Regularly (if not once a year, please specify)
  - b) When there is a necessity
  - c) No meetings
10. What are the advantages of belonging to COOP (POs/PGs) for members?

Advantages	Not important	Marginal importance	Very important
To gain higher prices			
To obtain higher profits for farmers			
To gain more bargaining power			
To obtain secured and long-term access to markets			
To obtain higher market share			
To exclude middlemen			
To enable investments			
Within the group we can offer each other services			
To get access to services provided by the co-op at business at cost principle			
To buy inputs (means) of production cheaper			
To reduce costs of output distribution			
To build a stable network of purchases			
To negotiate long term contracts with buyers			
To decrease transaction costs (per member and per transaction)			
To obtain easier and cheaper info about the market			
To save time spent for suppliers and sales			
To get extension services/education			
To reach higher efficiency in agricultural production			
To avoid competitions with one another			
To obtain security for transactions via insurance			

Members can get their payment through co-op quicker and more sure			
To obtain EU support for Production groups			
To obtain national support for Production groups			
To get plus points due to membership in POs/PGs in some tenders (policy measures)			
To guarantee the profitability of production via obtaining subsidies			
To reduce market risk			
To reduce technological risk			
To easier access credits and loans			
Experts, sometimes with market connections can govern the organization			
Adjust quantity and quality of production to demand			
Help more environmentally friendly production			
Help to save local heritage of production culture			
Provide technological background for preparation, storage and sales of marketed products			
Other, please specify			

11. What are the most important non-economic advantages of the co-op?
12. According to your opinion which of those advantages is the most important in your COOP?
13. What % of the members get higher price for their products compared to the ones not involved in the cooperative?
14. Does the co-op (group) have long term contract with the buyers?
15. Are the members satisfied with their situation?
16. Is it easy to find appropriate staff?

B) Leadership – problems

1. Do you feel satisfied with your influence within the Board of Directors/COOP?
2. Can you recall any conflict concerning PO management, management and members, management an workers? Was it solved in a satisfactory way?
3. Can you recall problems during the existence of the CO– which of these were most difficult to overcome at the beginning of the COOP? (A – Major problem, B- minor problem, C- not a problem) – Which of these were most difficult to overcome?
  - a) to trust each other
  - b) to trust the leader
  - c) to trust advisors and public administration (of what?)
  - d) leadership
  - e) to find buyers for products
  - f) to find members
  - g) to agree upon a legal form
  - h) to agree what to produce
  - i) to finance some necessary investments
  - j) to find funds for some necessary expenditures

- k) bookkeeping  
 l) other please specify
4. What do you see as biggest problem to overcome during running COOP? (A – Major problem, B- minor problem, C- not a problem)
- a) Decision making,
  - b) Leadership problems,
  - c) Finding purchasers for the output
  - d) Following legal acts on PG's Cooperation with public institutions,
  - e) Bookkeeping,
  - f) Obtaining financial support from EU – other organizations,
  - g) Other, please specify:
- C) Market relations - competition
5. Do you face to problems of market relations of PO?
6. Who are the main competitors on the market? (a- main competitor, B- minor competitor, C- no competition)
- a- International (foreign) companies
  - b- National companies
  - c- Individual farmers,
  - d- Other producer groups, cooperatives,
  - e- Other, please specify:
7. How do you feel the competition in the market?
- a- Strong competition
  - b- Normal competition
  - c- Soft competition , rather friendly relationships
  - d- We are considering the creation of the PG's union of production to coordinate our activities
  - e- Other -
8. Do you feel like international competition on Polish/Hungarian market harms the interests of your PO?
- D) Legislative environment, local environment
9. Do you feel Polish/Hungarian legislation is in favor of COOP development? Why?
10. What could be changed to have more success in COOP development?
11. How do you evaluate the local climate doing the business of your COOP?

Statements	Disagree	Partially agree	Fully agree
Easy to fulfill all administrative work required by the law			
Easy to cooperate with civil servants (who?) officers of central and local governments, registration, taxation, the extension service etc			
Easy to find trustworthy partners			
The law acts in favor of businessman entrepreneurs			
Easy to obtain capital			

People are interested in doing business			
The competition with big companies is too high			

12. What is the attitude of farmers from your local community towards COOP?

- a) Very positive, most of them to some extent cooperate with other farmers
- b) Very positive, they would like to follow or organize some cooperation in the future
- c) Positive but they do not want to cooperate themselves
- d) Neutral
- e) Cautious and watching
- f) Rather negative, they do not want to cooperate
- g) Negative, they think every cooperation will collapse sooner or later
- h) They do not like people who cooperate
- i) I do not know

13. Does the Cooperation give farmers any possibility to obtain support from EU, central or regional authorities, loans grants, etc. If yes, what sort of support?

2. Coop member

A) Advantage of co-op (PO/PG)

1. What are the advantages of belonging to co-op (PO/PG)?

Advantages	Not important	Marginal importance	Very important
To gain higher prices			
To obtain higher profits for farmers			
To gain more bargaining power			
To obtain secured and long-term access to markets			
To obtain higher market share			
To exclude middlemen			
To enable investments			
Within the group we can offer each other services			
To get access to services provided by the co-op at business at cost principle			
To buy inputs (means) of production cheaper			
To reduce costs of output distribution			
To build a stable network of purchases			
To negotiate long term contracts with buyers			
To decrease transaction costs (per member and per transaction)			
To obtain easier and cheaper info about the market			
To save time spent for suppliers and sales			
To get extension services/education			
To reach higher efficiency in agricultural production			
To avoid competitions with one another			
To obtain security for transactions via insurance			

Members can get their payment through co-op quicker and more sure			
To obtain EU support for Production groups			
To obtain national support for Production groups			
To get plus points due to membership in POs/PGs in some tenders (policy measures)			
To guarantee the profitability of production via obtaining subsidies			
To reduce market risk			
To reduce technological risk			
To easier access credits and loans			
Experts, sometimes with market connections can govern the organization			
Adjust quantity and quality of production to demand			
Help more environmentally friendly production			
Help to save local heritage of production culture			
Provide technological background for preparation, storage and sales of marketed products			
Other, please specify			

B) Leadership - problems

2. Do you have a regular contact with the management of co-op (PO/PG)?
3. Are you satisfied with information that you have on the PO?
4. Do you feel satisfied with your influence within the COOP?
5. Can you recall any conflict concerning PO management, management and members, management an workers? Was it solved in a satisfactory way?
6. Can you recall problems during the existence of the CO- which of these were most difficult to overcome at the beginning of the COOP? (A – Major problem, B- minor problem, C- not a problem) – Which of these were most difficult to overcome?
  - a) to trust each other
  - b) to trust the leader
  - c) to trust advisors and administration
  - d) leadership
  - e) to find buyers for products
  - f) to find members
  - g) to agree upon a legal form
  - h) to agree what to produce
  - i) to finance some necessary investments
  - j) to find funds for some necessary expenditures
  - k) bookkeeping
  - l) other please specify
7. What do you see as biggest problem to overcome during running COOP? (A – Major problem, B- minor problem, C- not a problem)
  - a) Decision making,
  - b) Leadership problems,

- c) Finding purchasers for the output
- d) Following legal acts on PG's Cooperation with public institutions,
- e) Bookkeeping,
- f) Obtaining financial support from EU – other organizations,
- g) Other, please specify ...

C) Market relations - competition

8. Do you face to problems of market relations of PO?
9. Who are the main competitors on the market? (a- main competitor, B- minor competitor, C- no competition)
  - a) International (foreign) companies
  - b) National companies
  - c) Individual farmers,
  - d) Other producer groups, cooperatives,
  - e) Other, please specify:
10. How do you feel the competition in the market?
  - a) Strong competition
  - b) Normal competition
  - c) Soft competition , rather friendly relationships
  - d) We are considering the creation of the PG's union of production to coordinate our activities
  - e) Other -

11. Do you feel like international competition on Polish/Hungarian market harms the interests of your PO?

D) Legislative environment, local environment

12. Do you feel Polish/Hungarian legislation is in favor of COOP development? Why?
13. What could be changed to have more success in COOP development?
14. How do you evaluate the local climate doing the business of your COOP?

Statements	Disagree	Partially agree	Fully agree
Easy to fulfill all administrative work required by the law			
Easy to cooperate with civil servants (who?)			
Easy to find trustworthy partners			
The law acts in favor of businessman (Do You mean in favor for IOFs)			
Easy to obtain capital			
People are interested in doing business			
The competition with big companies is too high			

15. What is the attitude of farmers from your local community towards COOP?

- a) Very positive, most of them to some extent cooperate with other farmers
- b) Very positive, they would like to follow is or organize some cooperation in the future
- c) Positive but they do not want to cooperate themselves

- d) Neutral
  - e) Cautious and watching
  - f) Rather negative, they do not want to cooperate
  - g) Negative, they think every cooperation will collapse sooner or later
  - h) They do not like people who cooperate
  - i) I do not know
16. Does the Cooperation give farmers any possibility to obtain support from EU, central or regional authorities, loans grants etc.. if yes, what sort of support?

### 3. Managing director/ Leader

The same question as for Board members (A, B, C, D)

Plus, in the case of COOP Leader:

Do you agree with the following statements?

Statements	I don't agree	Partially agree	I agree
I personally knew most members of COOP before			
I had family relations with most of the COOP members			
I had business relationship with most COOP members before			
I had the biggest impact on how today COOP looks like			
I convinced most members to join the group			
I found most of the purchasers for the output			
Most decisions I take regarding the group			
I always ask other members for advice before taking the most important decisions			
I have a good understanding of local people and environment			
I grew up in this municipality (region)			
I personally know most of the local decision makers (members of local government, officials, priest)			
I often meet other PG leaders			
A good leader should always listen to people he or she is governing			
I often follow the advice of the others			
I am satisfied with my leadership			
I would like to lead this COOP as long as possible			