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Leadership and the importance of social capital in the transition of cooperatives¹

A Case study of two cooperatives

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Abstract

In Hungary radical reforms have meant that an increasing number of cooperatives have either fragmented or gone bankrupt because of not being competitive under current market conditions. Others, however, have been able to maintain or even improve on their previous success. Individual farmers have also established new cooperatives and are trying to further cooperation.

This paper discusses the importance of cooperatives' management during the transition period, a topic which the pertinent literature does not fully address. Production co-ops were not only economic units but also social networks. Two successful cooperatives from the same town, one old and one new, have been used and comparisons drawn regarding their management and progress, both of which were backed by social capital. The findings show that, in the traditional agricultural co-op, a more social- (member) oriented leadership has helped to overcome economic, social, and psychological barriers erected during transition. With the new co-op, the post-reform period has prompted enhanced cooperation mainly dependent on a increased level of social capital.

Key words

Social capital, transformation of coops, leadership and management, production co-operatives

1. Introction and problem statement

Most Central/East European countries (CEECs) had a system of large-scale farms which, to join a market system, had to be restructured. Prior to radical reforms in Hungary, agricultural co-ops had a 48-50% share in Gross Agricultural Output (GAO) while another 33-35% came from household production integrated with co-ops. After Communism, cooperative members needed to choose between continuing cooperative farming or leaving the co-op to start farming individually or establishing partnerships. Two major types of cooperation, a traditional production co-op and a new marketing coop, will be evaluated.

At the start of the 90s, not many co-ops within the agricultural sub-sector were broken up, but in the following years this became more frequent. In fact, in the early nineties 7-10 % of co-op members decided to leave. The new individual farmers' average size holdings amounted to 2-3 ha. However, later on some of them decided to join recently established cooperatives.

The case study is based on research in literature and interviews. Field work was carried out in a traditional cooperative, BÉKE, and in a newly-established Purchasing and Marketing Cooperative, HAJDÚ GAZDÁK (PMCHG).

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The research provides insight into private farmers' motivations as well as those of co-op members and highlights those factors driving private farmers, on the one hand to join cooperatives and, on the other, factors driving traditional co-op members to stay put.

Besides the PMCHG and BÉKE Co-op directors, also interviewed was another key PMCHG individual. Moreover, based on a standardized questionnaire, five members from each co-op were asked to answer questions. To complete the case study relevant documents and observations were also used.

The paper is structured in the following way. In the second part, the case study's objective and subsequent hypotheses will be described. In the third section, an insight will be given into the establishment and performance of both co-ops. The fourth section deals with methodology and the analytical framework, including the role of management in cooperation. In the next section the focus will be on visually presenting the actors and their interactions. Section six discusses how people have tried to improve social capital under different institutional circumstances. Finally, there will be a summary of the findings on social capital in the two co-ops.

2. Case study objectives and hypotheses

The case study's objective is to compare the development of a traditional and a new type of cooperative in the post-reform period and to highlight key factors affecting cooperation.

2.1. Radical reforms

In the early 90s the political changes which took place greatly changed farming's political and economic environment. The new agricultural policy's major pillars were the following: "a) the country must have internationally competitive agriculture, b) subsidies should be reduced to a much lower level. c) as in the EU, the family farm must be supported to becoming the prevailing structure."³

Only for land could one, retroactive to 1949, reclaim *in kind* individually owned property. Due to the four compensation laws⁴, approximately an additional 1.0-1.1 million landowners, with an average of 1.7-1.8 hectares, emerged. This was coupled with the already 1.5 million landowners, resulting in fragmented land ownership (Varga, 2000).

2.2. New institutional framework for marketing products

Concerning institutions, the fact that the former regime ceased helping small farmers access markets created the following problems: a) local markets used to exist that accepted limited supply; b) however, the efficient General Consumer and Marketing Cooperatives (GCMCs) mostly disappeared; c) inexperienced new middlemen emerged and began business in the vertical chains; d) production co-ops no longer felt compelled to market small indivi-

³ New Agricultural Policy. Ministry of Agriculture. Manuscript. 1992.

⁴ The Parliament passed a law on partial restitution (XXVth Law (1991)) covering all kinds of assets destroyed, partially destroyed, or taken over by the state. This law was followed by four others (XXIVth Law of 1992, XXXIInd Law of 1992, IInd Law of 1994 and XXXIIIrd Law of 1997) all dealing with compensation. People whose ownership was damaged by the laws released after May 1, 1939 and listed in the annex and ownership damaged by the laws released after June 8th, 1948 and listed in the annex of the law (XXVth Law (1991)) had to be compensated. The amount of the compensation was determined on a regressive scale.

dual farmers' products; e) former procurement and processing companies were no longer obliged to purchase agricultural products; f) in this context social capital was destroyed before the emergence of a new competitive distribution system; g) establishing a new system from bottom to top needed more time and resources.

Under the Ministry of Agriculture and Rural Development, there have been several new institutions dealing with establishing a new environment for coordinating market performance. These are: a) Office of Agricultural Market Regime, b) Center for Agricultural Intervention, later named Office of Agriculture and Rural Development (paying institution), c) Product Councils (PCs) established by producers, processors, traders and consumers of selected products or groups of products, d) Producers' Organizations (POs).

Moreover, some other institutions have also represented the interests of agricultural producers, e.g. the Agricultural Chamber, the National Federation of Agricultural Producers and Co-operators (NFAPC), and the National Federation of Farmers (NFF).

2.3. Transformation of production co-ops

In 1992 a law was passed on how cooperatives could meet new requirements, allowing members to leave their cooperatives if they wanted. In restructured co-ops three major landowner groups have appeared. First, there are people actually involved in agricultural production. Second, retired people who remain co-op members. Third, 'outsiders', meaning recent landowners not interested in private farming. Besides the land itself, means of production (machines, other tools, etc.) have also had to be distributed among landowners in the form of co-op shares and business shares. Pensioners now control an increasing number of business shares, resulting in conflicts of interest. Success in restructuring agricultural co-ops and in developing new co-ops has very much depended on their managers expertise and also on how much members trust those very leaders and the institutions.

3. Methodology and analytical framework

Recently researchers have indicated that social capital is a key element of economic growth and that it is linked to the prevailing level of trust. However, the level of "social capital depends on a person's connections (whom they know, but also connections through common group membership), the strength of these connections and resources to their connections" (Murray and Beckmann, 2004). In the given socio-economic context, the latter prompts discussion and evaluation of the social capital issue and its strength. The IDARI Project WP3 dealt with social capital, governance, and institutional innovations by analyzing processes for achieving cooperation and by seeking to understand the failure of cooperative strategies. To understand the concept of trust, case studies focus on communication and social learning. Murray (2004) underlined that the extent of relationship networks is determined by a group's prevailing social norms, the necessity for interaction, and individuals' motivations for interacting.

3.1. Social capital under the socialist system

Chloupkova et al. (2003) have compared social capital development in Danish and Polish cooperatives and concluded that, although pre-World War II levels were similar, the present Danish social capital level was now higher. This suggests that under the Communist

regime Polish social capital was destroyed. However, regarding former socialist countries, one has to be careful when making general statements on the social capital situation. First, socialist countries had strong national characteristics. Second, in contrast to other former Communist countries, during Polish socialism small farms dominated agriculture. Third, Polish small farmers have accumulated sufficient experience when it comes to trusting each other, other market players, and the government.

In Hungary private farming had a marginal GAO role after collectivization (1961), but small-scale (household) farming was an important source of income for cooperative members. Cooperative members' trust in their leaders also increased. Vertical cooperation between producers, buyers, manufacturers and traders grew and transaction costs declined.

3.2. The decline of social capital after radical reforms

Agrarian reform in CEE countries (CEEs) has been examined in terms of political economy, property rights theory, transaction cost economics, etc. Valentinov (2004) asserts that in all these approaches social capital has played a decisive role toward the outcome of reform. Each approach was shown to reveal specific aspects of the social capital concept, which subsequently led to additional findings. In CEECS it is undeniable that social capital plummeted after radical reforms. The question is why.

First, land ownership has changed substantially. New landowners have different attitudes toward farming and also a low level of social capital. Second, people have not been sure how stable the new agricultural policy is. Third, prior to political change, cohesion and the social capital level among cooperative members were often high. This was due to long-term successful performance. For many Hungarian cooperatives, trust in management has become a decisive factor. Fourth, social capital, social norms, and levels of trust were greatly affected by radical reforms. Fifth, for years the economic environment has not been transparent. Numerous people and businesses have broken rules and the value of norms has declined.

3.3. The leadership issue

After the introduction of the 1990 new agricultural policy, co-ops had a hard time adjusting. A decisive question became the extent of people's trust in the cooperative as such and in its managers. In Hungary only 127 out of 1,441 cooperatives were not able to meet the deadline for new legal requirements and consequently disappeared. Some 10% of members decided to leave their cooperatives, but the rest continued their membership. The vast majority of members did not think of leaving the cooperative to begin farming on their own. This helped prove that people highly trusted their cooperative management and their cooperative.

Why have certain cooperatives survived? A major factor in their adjustment was the co-op management and that members trusted their management. Murray (2004) stresses that managers and management may have a decisive role in improving and maintaining a high level of social capital. Economic arguments alone cannot explain relationships between co-op management and members. For most co-op managers suddenly ceasing a long-term pattern of helping and mutual support would have been highly unlikely. Findings from both the experimental study and the cross-sectional survey by Cremer and Knippenberg (2005) showed that a manager's self-sacrifice has a positive effect on cooperation. Trust in the manager and

feelings of collective identification bolstered the effects of this self-sacrifice. While focusing on different facets of management in social dilemmas, Vught (2002) concluded that the effectiveness of a manager's solutions to social dilemmas depends on a balance between a manager's characteristics and members' expectations.

3.4. Research hypotheses

The following research hypotheses were formulated and tested:

Hypothesis 1: Where trust in formal institutions is low, there are high transaction costs in dealing with the State and actors will rely on informal institutions to solve their problems of collective action.

Hypothesis 2: The more frequent and complete communication is between agents, the greater the cooperation.

Hypothesis 3: Reducing transaction costs generates changes in governance structure.

Hypothesis 4: Prior to reforms, social capital in CEE countries was low.

Hypothesis 5: Although the market is based on competitive forces, a network of cooperation is nevertheless required for its sustenance.

4. Unit of analysis

In this section, the historical development of two cooperatives will be discussed. It will be shown how social capital, following the collapse of the old distribution system, has contributed to improving or maintaining cooperation.

4.1. A brief history of and the challenges facing the BÉKE Co-op, Hajdúböszörmény

On June 27, 1955 the poorest of the town's peasants founded The BÉKE Co-op. Those very founders had a total of 73 ha of agricultural land. However, in 1960 both the number of co-op members and the area under cultivation increased significantly (Mónus, 1999). Specialists came and worked for the co-op and over the years huge investments were made. Since 1967, farms tried to be profitable. In 1978 because of greater production, BÉKE's Co-op corporate governance was changed. In the following years, the co-op often won the "Cooperative Excellence" award.

During the transition to a market system, many agricultural cooperatives broke up and disappeared. In 1990, after 27 years at the helm, the BÉKE president was replaced. The new management opted for a more aggressive style, and, as permitted by law, distributed part of the land and assets among members and employees. At the same time, the president held face-to-face negotiations with all members. Finally, 64 out of 960 members (some 7%, below the national average) left the cooperative.

Over the years, BÉKE has carried out a 100% leverage buy-out of the Zelemér agricultural co-op. Moreover, a turkey plant has been bought and two more beef and a pig production unit have also come under BÉKE ownership. Finally, in 2000 the co-op merged with the Agro-Balmaz Agricultural Coop. Now nearly 600 people work for the co-op in 26

different units. They interact with more than 100 entrepreneurs and cultivation covers a land area of 7,000 ha owned by 4,000 landowners.

Although over the years the co-op has faced real challenges, it has still managed to achieve significant economic growth and results. The cooperative has followed an expansive development policy and new investments enhanced its stability but these have not always been tested by market needs and have required more and more loans.

In the late 90s some 50% of business shares in the cooperative were bought by the government. However, under a December, 2005 law on cooperatives, the shares will be given back to cooperatives, but these can be used only under joint ownership conditions.

4.2. The establishment and development of the Hajdú Gazdák Purchasing and Marketing Cooperative (PMCHG)

In the early twentieth century, the Hajdú Gazdák Agricultural Association was established but was later suspended under the Communist regime. After 1990, individual farmers wished to revive this association. First, in 1993 the Farmers' Club was established with the aim of "representing the interests of the members, improving the skills of producers, increasing both the output and the quality of production..." (Mónus, 1999). In July, 1996, the Farmers' Club was succeeded by the HAJDÚ Purchasing and Marketing Cooperative (PMCH). Its purpose was gathering and spreading information, joint purchasing of inputs, and marketing of products. To access additional government support, in 1999 PMCH decided to establish a new producers' organization (PO) called the Purchasing and Marketing Cooperative "HAJDÚ GAZDÁK" (PMCHG). Justification for this action was underlined by Murray (2004) who stated: "Cooperation between people requires networks of association, and can be distinguished as situations where there is visible action on a collective level for a predetermined goal or social dilemma". Shortly after the establishment of PMCHG, the new and old cooperative, with the same members, merged under the name PMCHG.

The cooperative is managed by the Board of Directors consisting of five members, and is supervised by a board of three members. The Members' Council meeting is the top-level decision-making body, with one member one vote. Payment for departing members is based on an equity ratio, and new members have to pay the same amount that departing members take out.

5. Visual presentations of actors and their interactions

This section deals with players from both case studies at the beginning of transition period. The width of arrows in Figures 1 and 2 reflect the weight of a given link.

5.1. The BÉKE Cooperative – a traditional production cooperative

The laws on compensation, on (new) cooperatives, and on the transformation of traditional agricultural cooperatives created a new legal environment. According to the law, cooperatives' equity (animals, machines, buildings, etc.) now had to be distributed among their members.

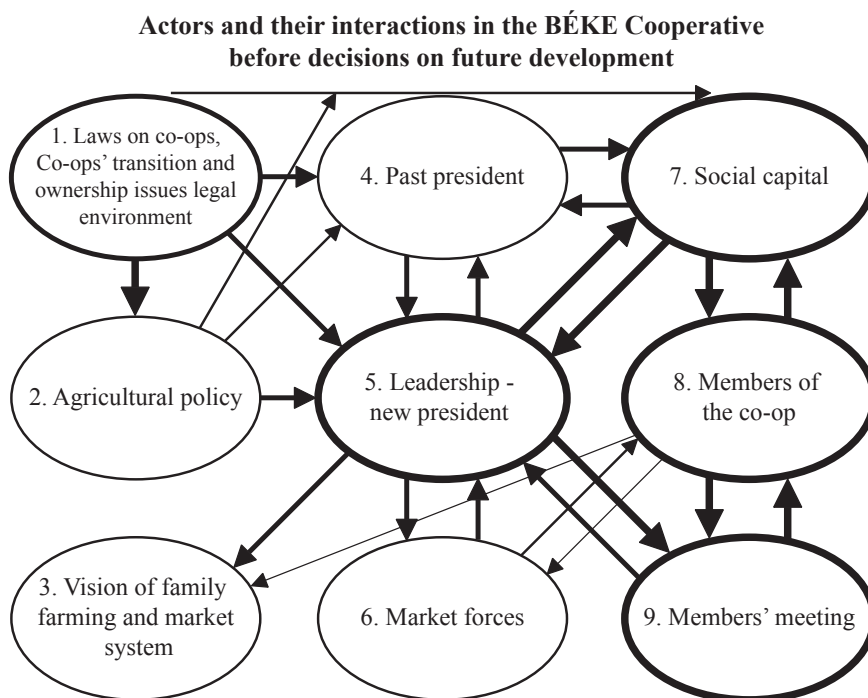
In 1990, a new president (director) was elected. The former and new president trusted each other and this trust also extended to most of the members. Therefore, internal factors contributing to social capital abounded and members did not wish to break up the cooperative community that they had taken years to build. However, others mainly saw the potential of individual farming and failed to see its disadvantages. Figure 1 shows the relations and interactions between BÉKE actors prior to deciding to transform the cooperative. In the end only 7-8% of members left.

5.2. The Purchasing and Marketing Cooperative “HAJDÚ GAZDÁK” (PMCHG)

In the early nineties government policy encouraged family farming. Those who left cooperatives were sure they would be more successful as individual farmers. For them, some individual farmers in the region were regarded as successful pioneers. Their level of social capital was not high when it came to co-ops and co-op managers.

After undergoing radical reforms, BÉKE cooperative enjoyed stable economic growth. Members were satisfied with the level of income from co-op activities. These activities enabled people to attain an acceptable standard of living for their families. Relations between members and also between members and management were based on trust. People recognized the need to enhance co-op performance and considered this management’s responsibility. The fact that members had long known and respected their co-op’s management team meant they were willing to follow them. Management decisions regarding investments and changing product structure were accepted by rank and file members. In Figure 1 are personal linkages within BEKE co-op.

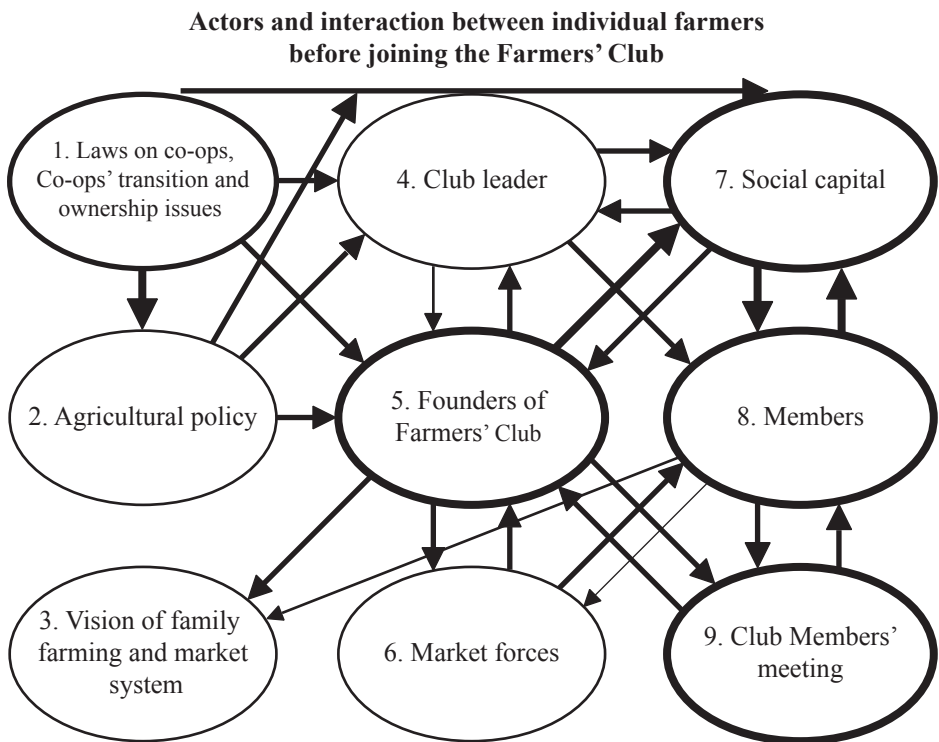
Figure 1



In the PMCHG co-op the first step towards cooperation was in 1993 when, individuals established the Farmers' Club. Key players were able to strongly influence conditions for the further development of cooperation. The PMCHG management assumed only necessary administrative jobs but did not exercise as much clout as the BÉKE president did. Social capital among members was above average. Internally this was partially because the founders had sufficient experience in family farming while former cooperative members were well-informed about agricultural policy issues. Concerning external factors, people strongly trusted the new government and the institutional environment.

In Figure 2 Linkages and interaction between different PMCHG actors.

Figure 2



5.3. A brief comparison between the BÉKE Cooperative and the Farmers' Club.

At the beginning of the nineties, social capital in general was somewhat stronger among BÉKE members than in the Farmers' Club. This was due to the BÉKE's history of collective achievement. However, in some areas the picture was the opposite. The previous BÉKE president was highly trusted by the membership. Between management and members there had been a positive atmosphere, and the legal environment had been transparent and stable. In 1990 after the election of the new president members continued to trust the management. However, following radical reforms, trust diminished toward state institutions, and in the prevailing legal environment, and in agricultural policy. This was because the then government favoured family farms over cooperatives.

In the early cooperative stages, The Farmers' Club focused only on information sharing information. However, later members recognized the need to make joint purchasing inputs to reduce transaction costs and then later the need for joint marketing. At the end of the nineties the need for joint investment was recognised and agreed on.

6. Determinants, effects and processes of cooperation and rural institutional innovation

In this section, analysis will be conducted on a parallel evaluation of interviews. There will also be analysis on five interviews from each co-op and with the two managing directors.

6.1. The role of trust/mistrust and opportunism

Social capital, trust, and cooperation entail people exploring collective cooperation in a smaller or larger community in order to benefit from such cooperation.

Eight out of ten interviewees said they were not formal members of any local or regional group or association. One person from BÉKE was a member of the regional federation of cooperatives and one worked for local government.

PMCHG members emphasized the economic advantages of joining a co-op because of decreasing transaction costs. "From an economic viewpoint, social capital recognizes *value* in social relationships, which can have market benefits, and as such should be considered akin to physical capital" (Glaeser *et al*, 2002 after Murray, 2004). Long-term personal relationships were an important factor but it was less significant than for the BÉKE Cooperative. Among the benefits arising from trust members stressed the following: that people were helpful, that trust is the basis of common interests, that mutual trust is the greatest of all treasures, and that the benefits depend on the people themselves. Members of PMCHG said that problems raised by the group should largely be solved by the cooperative rather than by national or local government agencies.

BÉKE Cooperative members found it pertinent to mention that their parents were also members and that three of them had already been cooperative employees. Two respondents considered the town and the neighborhood as their community while another considered the family and work mates as community. For another the entire county was important. Most of them had joined the cooperative many years previously. According to them, cooperation and integration had brought members advantages. Others who joined later had been attracted by the cooperative's reputation. Although they were more cautious or more critical of the notion of trust, BÉKE members had greater trust in EU institutions and in both national and local government officials. They also found mutual trust advantageous but stronger emphasis was placed on more efficient work and a good working atmosphere. BÉKE members were more cautious, admitting that conflicts could surface everywhere, although it is not typical in a co-op. Economic problems should be solved by the national government, but the co-op must also do its best to solve problems. Compared to PMCHG members, BÉKE members were more informed on farming's historical aspects and had information that was based on a deeper analysis of economic issues.

In the two cases, reasons given for joining the cooperative were rather different. In both co-ops, interviewees stressed the importance of long-lasting personal relationships among members. Discussing trust in more general terms, members of PCMCHG enjoyed higher levels of trust with their business partners and this even without written contracts. Their levels of trust had changed based on experience gained over the years. Because of post-1990 experiences, BÉKE members were more pessimistic.

Members in both co-ops regarded trust and reciprocity as important elements of social capital. However, their approach to the issue reflects different standpoints.

Trust towards formal institutions differed in the two co-ops. Members of PMCHG had low levels of trust in current government officials and EU institutions. In contrast, BÉKE members placed more trust in the national government and their trust in EU institutions was also above average. However, where trust levels in state institutions were low, to reduce transaction costs people looked for informal institutions to solve their problems. Hypothesis 1 was justified.

6.2. The role of communication and learning

Based on information from different communication channels, people in communities always change their views on various issues. How intensively these channels are used affects the level of social capital.

Concerning *government and EU issues*, neither group used the following: local markets and shops, government agencies, political parties, and internet communication channels.

PMCHG members tried to gather information through more channels and used them more frequently, while BÉKE members mostly relied on national media but less on local community leaders. Information from cooperative leaders was checked by obtaining and analyzing information from various governmental and other sources of information.

In both groups collecting information on *community issues* was conducted differently. The frequency with which information was gathered was significantly lower in the BÉKE co-op. All PCMCHG members got information principally from community leaders as well as from community and local newspapers.

A key point was how much people *were satisfied with the information* they had. The Ostrom approach states (after Murray, 2004) that during the communication process social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity. In both co-ops we can see a positive outcome as the general picture was excellent. PMCHG members found decisions on investments to be a communication weak point. Blockage or withholding of information within the cooperative was not considered a serious problem.

The high level of satisfaction with the essential information supply was likely due to continual discussion among members on important business issues. The dialogue is quite intensive and new information is shared as soon as possible. PMCHG members were more optimistic concerning members' capacity for problem-solving.

Regarding *external contacts* with relevant people from similar organizations, members in both cooperatives thought that such tasks were mostly management's responsibility. However, in either case external relationships are not that significant.

People stated that, no matter how long one has worked for the cooperative, one always gains something from it. Members from the younger cooperative placed high value on joint efforts and collective action while members of BÉKE valued being well-informed.

All ten interviewees said they were satisfied with the information they had been provided. When not, then additional efforts had managed to acquire the missing information.

In both cases, people have used to varying degrees different channels to obtain sufficient information. Central actors have not used communication to their personal advantage, but as a means of helping members. Hypothesis 2 was justified.

6.3. Transaction costs and governance structure

PMCHG members most valued those incentives (economy, environmental protection) which most affected transaction costs and, to reduce transaction costs, they were willing and open to cooperation with non-members. To reduce transaction costs, BÉKE members valued the historical background of relationships and education.

Most of the interviewees had not calculated the costs of attending internal meetings but more of them calculated costs related to attending external meetings. Membership was seen as a benefit, especially in the PMCHG Cooperative. The benefits they indicated included market access, the reduction of input costs, joint use of machinery, and getting farm gate prices based on quality. BÉKE members listed those long-term benefits which they were at risk of losing.

To improve efficiency and enhance cooperation, in the late seventies BÉKE changed its governance structure.

In 1996 and in 1999 the PMCHG changed its governance structure. This was done to reduce transaction costs or to become eligible for additional resources and to improve cooperation.

It was shown that cooperatives, in order to reduce transaction costs, have decided to change governance structure and have adjusted to new economic conditions and market situations. Hypothesis 3 was justified.

6.4. The role of the state and cooperation's formal institutional environment

During the socialist era, members of both cooperatives agreed that cooperatives had been efficient and economically sound. Other than the introduction in 1967 of a new economic mechanism, there were two more factors which improved cooperation.

First, cooperatives were allowed to engage in so-called non-agricultural activities (construction work, producing spare parts, etc.) which were more lucrative than animal husbandry or crop production. Utilising subsidization policy, they developed farm infrastructure, bought the latest technology and new machines, made profits, and paid more money to members and employees. Second, cooperatives could perform the latter because farm gate prices were gradually approaching market prices. In the first half of the seventies, agriculture grew quickly and in the second half still grew at a reasonable level, but later growth slackened. An experiment showed that if cooperatives were more independent, they would be able to increase efficiency and generate more profits.

Since radical reforms, people's attitude towards cooperation has changed significantly. Mainstream views have become more negative, making people less likely to engage in cooperative activity. Land compensation was not well-managed. People have become less trusting and members were cautious when asked about enlarging cooperative measures.

The majority of responses indicated that trust towards central and local government has deteriorated. This decline is more pronounced among PMCHG members and only one person out of ten responded that trust in government had increased since the transition. They also stated that the declining level of trust was caused by the current government.

Members of the BÉKE Cooperative were mostly dissatisfied with government performance while PMCHG members were more positive. In general, people were disappointed with agricultural policy toward EU membership.

After the introduction of the new agricultural economic mechanism in 1967, social capital started to increase and developed as the economic environment became a mixture of a centrally-planned and a market economy. In Hungary during the seventies and eighties social capital was not low. Hypotheses 4 was rejected.

6.5. The role of communities, social networks and informal institutions

Motivation toward helping the community has been strong in both cooperatives, even if only other members of the local community could benefit from it. Cooperative members' general attitude has been highly community-oriented. People feel motivated to help if it only involved donating their time. However, if money was required, fewer people were ready to contribute. All PMCHG members interviewed were willing to sacrifice more and were even willing to pay more money toward community development. BÉKE members were also in favor of improving cooperation but they expected to get direct benefits if a financial contribution were required.

The majority of PMCHG members mentioned that conflicts should be openly discussed and that for major issues the cooperative's by-laws must be used. BÉKE members said that both formal and informal mechanisms could be used to find solutions. When dealing with a problem, people in both cooperatives would take action to clarify it with the initiator (BÉKE) or address it to the cooperative leader or hold a group meeting (PMCHG).

PMCHG people did not perceive that their group contained a clique. However, in the case of BÉKE, two members mentioned that such cliques existed.

Cooperation is affected by several factors. All examined factors (8) were deemed to be very important or somewhat important in both cooperatives, but on average the BÉKE membership more strongly supported this notion. All nine members who responded stressed the importance of keeping well-informed, and the foremost factor was having sufficient information to make prudent decisions. Moreover, they also stressed the importance of a high level of trust and market-driven incentives for cooperation.

It can be stated that informal institutions were not seen as a necessary determinant for achieving cooperation. People could efficiently make use of formal institutions and only rarely tried to find solutions by informal means.

6.6. The role of market and competition in fostering/hindering cooperation

PMCHG members took a practical approach, asserting that agriculture is sustainable as long as it is profitable. Most BÉKE interviewees also thought agriculture could not be sustainable if it was not profitable. They indicated that sustainability largely depends on available sectoral subsidies. As for environmentally-friendly agriculture, people pointed to different aspects, but organic farming was the leading one.

The cooperative's competitiveness was evaluated at different levels. For the PMCHG, one member found the cooperative competitive, two thought the coop was moderately competitive, and two people declined to answer. Those from the BÉKE Cooperative asserted that logically the cooperative must be competitive because it has been operating for 50 years. However, they added that currently neither the cooperative's foreign nor its domestic market could be considered stable. Tourism was not deemed a solution for regional or local problems.

Hypotheses 5 was justified *as people found market forces important and underlined the need for cooperation to become competitive and to meet market requirements.*

7. Conclusions

Since the passing of socialism and the introduction of radical reforms, people in both cooperatives have had different experiences and have followed different paths to development.

Utilising experience gained in private farming, PMCHG Cooperative members increased cooperation to reduce transaction costs. BÉKE Co-op members from the mid-sixties to the late eighties achieved progress; they strongly believed in cooperation and deeply trusted their management team, a trust which had survived the test of time.

For both co-ops, a high level of trust resulted in an effective way of reducing transaction costs, even when trust was based only on personal or one's parents' experience. The latter was a stronger factor for BÉKE Co-op members and indicates that co-op members held high levels of social capital under the socialist system.

In the two cooperatives the role of leadership differed somewhat. In the BÉKE Co-op, management's goal was to avoid breaking up the cooperative community, while at PMCHG the key players' central responsibility was to persuade individual farmers to begin and solidify cooperation in order to build up a new cooperative community. In both co-ops the trust placed in management indicated that leadership plays an important role in cooperatives.

Based on different experience, trust towards formal institutions differs in the two co-ops. It was ascertained that the level of communication affects the level of cooperation. In neither co-op has the latter been handicapped by a shortage of information and the chief players have not used communication as a source of power. Both co-ops wished to reduce transaction costs and thus undertook changes in governance structures.

People were able to solve some of their problems by relying on formal institutions. However, when this failed to work, they used informal institutions. From the very outset, PMCHG Cooperative members viewed informal methods as playing a more important role

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