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# Exploration of Problems in Developing Jilin Farmers' Professional Cooperatives

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**Abstract** Establishment of farmers' professional cooperatives is an effective approach of settling conflicts between small-scale production of rural households and great market, however, there are still many problems such as low level of standardization, unscientific market positioning, poor capacity of mitigating risks, and unfavorable ecological benefits. This study, based on field investigation data and successful support experience, further explored operation and management problems existing in Jilin Farming Cooperative, and proposed pertinent solutions so as to enhance the high-efficiency and standard operation of farmers' professional cooperatives in Jilin Province and even China.

**Key words** Farmers' professional cooperatives, Operation and management, Jilin Province

Document No. 1 of the Central Committee of the Communist Party of China has again placed great stress on "agriculture, rural areas, farmers" since 2004, and issued policies (also called *New Deal for Agriculture, Rural Areas and Farmers*) for settling problems encountered by "agriculture, rural areas, farmers" in China. In this background, Jilin Province has made remarkable progress in the development of agriculture and rural areas. The province, located in the central region of northeast China and the golden corn zone, chooses its pillar industries on the basis of its advantages in geographical location and resources, and makes it an important agricultural production base. With the rapid development of rural economy, farmers' professional cooperatives in Jilin Province have been gradually established<sup>[1]</sup>. However, most of the local professional cooperatives are "fake cooperatives" because of the non-standard operation, thus they are not able to enhance agricultural development and prosperity of rural areas in Jilin Province. Therefore, standardization of farmers' professional cooperatives is important for Jilin Province, and relevant problems have to be studied to better play the role of farmers' professional cooperatives.

Farmers' Cooperative of Jilin Province is located in Hebei Village, Nanweizi Town, Gongzhuling City, Jilin Province, and was first established by Lu Wei, an undergraduate majoring in animal husbandry and veterinary surgeon in Jilin University,

and 6 rural households with an investment of 2.6 million yuan in July 2009. The cooperative is mainly engaged in raising hogs and hens as a representative of farmers' autonomous development cooperatives in Jilin Province. In the first year after the establishment of the cooperative, the members felt lost because they did not know the function and role of cooperative and had no corresponding management knowledge, thus the cooperative was only a "decoration" then.

The research team has studied and given support to Jilin Farmers' Cooperative (hereinafter referred to as the cooperative) since April 2010, and made training schemes for its members through consulting relevant materials. In the end of 2010, the members were trained for one week and changed their views after they discussed development pattern of the cooperative with the research team. The research team consists of mainly undergraduates from relevant majors, and the team made the scientific and feasible *Development Planning of Jilin Farmers' Professional Cooperative of Farming* after repeated demonstrations according to actual development of the cooperative. Exhibition boards and logo of the cooperative were designed.

Supported by the research team, the cooperative registered the trademark of "Lingfengyuan" in March 2011, and included 56 rural households by the end of September 2011. Operation of all departments has been on the right track, and net income of the first 9 months achieved 97 000 yuan due to the rapid development, and the cooperative was entitled as the Demonstration Cooperative of Jilin Province.

On the basis of investigation data of the cooperative for the last year and earlier, we analyzed problems existing in its development and elaborated relevant solutions adopted by the research team.

## 1 Problems in the operation of the cooperative and cause analysis

### 1.1 Low level of standardization Operation and manage-

Received: June 26, 2012 Accepted: July 29, 2012

Supported by Research on Scientific Renovation and Sustainable Economic Development (Program of Humanities and Social Science Foundation of the Ministry of Education, 09YJA790080); Systematic Analysis of Agricultural Scientific and Technological Progress in Jilin Province (the "Eleventh Five-year" Research Program of Social Science of Jilin Department of Education); Operation Design of Farmers' Professional Cooperatives in Gongzhuling City (Undergraduates' Innovative Experiment Program of Jilin University, 2010C83280).

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ment indicates the activities for implementing and adjusting all businesses such as production, purchasing, logistics, operation, labor forces and financial affairs according to targets of the organization.

Cooperative as a newly-introduced operation mode in rural areas is a challenge for even professional managers to master its operation laws and relevant management patterns<sup>[2]</sup>. Chief of Jilin Farmers' Cooperative is family with management, but 90% of its members have an education background of middle school, thus they know nothing about the operation and management of cooperative, and have limited capacity of learning new knowledge. As a result, poor standardization of the cooperative is the primary and also fundamental problem in its development. And the problem is specifically demonstrated in the following three aspects.

**1.1.1 Incomplete management system.** Without scientific labor division or functional distribution, members of the cooperative only gather together for making products, the due scale effects are not fully played<sup>[3]</sup>. There is management staff such as chief and deputy chief for making decisions, but no one responsible for specific decision-making, implementation and supervision of relevant management system. Most of the members have no definite role in the team, the chief himself or a few members follow up major operation and implementation activities, and the chief distributes tasks without any standard and always follows the principle of proximity. Although there are functional departments such as board of directors and board of supervisors, these departments fail to play their due roles, because rights and responsibilities of the departments are not clearly defined, no one bears the responsibility or is held responsible for problems in the process of organization, thus management chaos frequently occurs.

**1.1.2 Incomplete operation mechanism.** Operation of the cooperative is still in the primary stage, and many operation activities are organized without the support of definite procedures<sup>[4]</sup>. In addition, the members are not familiar with the operation process because of their poor capacity of learning, thus many production and operation activities cannot be arranged scientifically, for example, unreasonable distribution of resources, low-efficiency logistics and improper distribution of finance. Quality of products is uneven because of non-standardized production, standard operation of the production procedures is hardly realized, thus sales effectiveness of the products is negatively influenced.

**1.1.3 Indefinite right-responsibility relationship.** It is hard to supervise the members as a whole because they have poor knowledge of operation and management, and always focus on self interests, as a result, cooperative although as a new development model is still restrained by smallholder consciousness. Labor division of the cooperative is mostly related to the benefits, "the more you work, the more you gain", but work distribution depends totally on the chief which is an unreasonable way of work distribution. For example, the Market Department failed to take its responsibility, only the chief and a few members made non-continuous efforts in developing the market

out of their beliefs in the cooperative operation and spirits of taking the risks, but not any monetary or other inspirations. The market developed by these people belonged to all members, and all members shared the benefits, collective account of the cooperative saw no money, and there was no secondary distribution to support operation of the cooperative.

The root cause of the above mentioned problems is the members' poor knowledge of cooperative and management, therefore, there are no standard management regulations, and the operation fails to comply with existing regulations of the cooperative, and the members cannot understand operation standards and profit pattern of the cooperative.

Root cause for these problems lies in the fact that members have poor knowledge of management and cooperative. In addition, the cooperative has no standard management regulations, the operation did not follow the existing regulations, and members did not understand implication of "cooperative", thus they did not know organization standards and profit model of the cooperative. Without organization standards, most of the departments remain in name only, and fail to play their roles in the operation and management, and the cooperative benefits are not well developed.

## **1.2 Unscientific market orientation of the cooperative**

Enterprises have to create distinctive images for their own products according to the position of competitors' products in the market, and consumers' emphasis on the products. Market orientation is to convey such images to consumers vividly, and fix the position of products in the market, its essence is to distinguish the enterprise from others, and enable consumers to notice the differences, so that consumers will make their choices according to the propagated differences, and have deep impression about products made by the cooperative<sup>[5-6]</sup>.

Jilin Farmers' Cooperative is mainly engaged in pork, hens and relevant processed products, these are necessities for daily life of people, thus such products have fixed positions in the heart of consumers, and it is extremely important for the cooperative to fix the position of its products in the market. However, the cooperative failed to finish this important activity.

The cooperative did not consider its future development in fixing position of its products in the market, and other problems such as future consumption tendencies, and its own profitability. As a result, its market orientation is not reasonable.

Root cause of this problem is summarized as: the members' concept is still restrained by the household production mode, and they fix the position of their products in only the process of slaughtering and selling hogs, their target markets only at farmer's market and food processing station. The members do not realize that large-scale production and operation can improve quality of the products and expand the market, thus obtain higher value that household production can never achieve. There is no product processing section, especially the deep processing section, members and the chief overlook the profits of down-stream products.

**1.3 Poor capacity of mitigating risks** Risk mitigation is a way of dealing with risks, it is to eliminate risks or occurring

conditions of risks by changing the plan, and protect the target from influence of risks. Although risk mitigation is not able to eliminate risks totally, it reduces negative influence of risks on enterprises by reducing possibility and degree of loss. The cooperative has no special risk mitigation system because of the poor knowledge in management, raising and energy recycling, but only bears the loss passively in a traditional way. Members of the cooperative even has no consciousness about risk mitigation, they do not believe that risks can be eliminated with plans, and simply accept all losses caused by the risks. In addition, they have no consciousness of buying commercial insurance to reduce the potential future losses caused by risks.

**1.4 Poor ecological benefits** Ecological benefits in the agricultural production indicate the mutually adaptive and coordinated state between energy input and output, and in structural functions of all components in the agricultural ecosystem. With ecological benefits, agricultural natural resources will be reasonably developed, used and protected to enhance the stable and sustainable development of agriculture and rural areas. The cooperative as a production system should be able to produce higher ecological benefits, but in fact, it also failed to use the resources that individual households were not able to use, and ecological benefits are not demonstrated.

Poor economic benefits of the cooperative are mainly demonstrated as energy circulation in the hog feeding is unitary, hog manure is directly abandoned but not reused for producing energy. As a result, living environment of the locals is seriously polluted, and the diversified utilization and circulation of energy is not realized, and the due ecological benefits are not developed. While the local ecological environment has to be renovated, effective utilization of manure can not only solve the present environmental problems, but also produce energy for daily use. However, there are no special equipment for the cooperative to process the manure, and no planning for the circulation of ecological energy.

## 2 Suggestions for promoting the high-efficiency operation of Jilin Farmers' Cooperative

**2.1 Improving the members' operation and management quality** The cooperative members and even the chief should learn the *Laws on Farmers' Professional Cooperative of the People's Republic of China* and relevant knowledge about operation and management by participating in training classes organized by many departments, or taking further education courses in universities. In this way, the chief and members will have better understanding about the role of farmers' professional cooperative, and also their own roles in the cooperative. The organizational structure of the cooperative has to be understood, and specific organizational structure made for Jilin Farmers' Cooperative, and management established first. Furthermore, regulations should be made for the cooperative, staff assigned for different departments to define their functions, ensure the cooperation among different departments. Development planning should also be made for the cooperative, short-

term and long-term development goals specified to guarantee smooth operation of the cooperative and realization of goals on schedule.

Management such as the chief should be specially trained for management knowledge, so they can distribute tasks in a more reasonable way, the strength of the team will be better developed, and the management will not have to finish all jobs by themselves. Members of the cooperative must be given with opportunities to learn skills, but not only obtain benefits by finishing the distributed tasks, so that they will benefit in an all-around way. It is also a necessary means of unifying product quality of the cooperative.

On the basis of field investigation, the authors discussed with the Chief Lu Wei many times to fully explore the members' needs for operation and management knowledge, and then consulted a number of materials to make a training scheme for members of the cooperative. The training was organized for 30 members on December 25, 2010, and the trainees learned basic knowledge about the cooperative, significance of developing farmers' professional cooperative and problems in the development. Many successful cases were introduced, and the trainees were encouraged to think about and discuss the way of developing the cooperative. The training was highly appreciated by the members because of the useful contents. As a result, specific regulations and labor division were made, and operation of the cooperative turned to the right track with the proper guidance of Lu Wei.

**2.2 Enhancing the brand consciousness and market consciousness** Scientific and technological innovation, improving quality and establishing brand are no doubt choices for the cooperative obtaining better profits. Establishment of brand is a long-term and systematic project, of which brand awareness, good reputation and loyalty are core contents. The following procedures are adopted.

First, excellent terminal visibility of product brands should be maintained to ensure consumers to have access to the products in different sales terminals, for example, stores, supermarkets, convenient stores and wholesale markets. The more times consumers have access to one brand, the more likely they will remember this brand, and finally have the impulse to buy the products. Excellent terminal visibility of brand is the most effective way of improving popularity of the brand for newly-emerging enterprises such as Jilin Farmers' Cooperative. To optimize the terminal visibility of its brand, the cooperative has to distribute its products in as many as sales terminals as possible.

Second, influence of the cooperative can be improved by using advertisement. Effective and low-cost media are favorable for the cooperative, for example, banners, wall advertisement, door header advertisement of distributors, listing advertisement on newspaper, or corner advertisement on local TV programs.

Finally, more public relations activities should be organized to enhance reputation of the cooperative. Image of a brand is formed mostly on the basis of the enterprise's activities. Once

the popularity is achieved, good reputation and loyalty of consumers have to be enhanced so as to win good opinion of consumers. Public relations activities can improve image of the brand and help the brand win the heart of consumers. And the mostly applied means include sponsoring certain activities and participating in public benefit activities. The cooperative registered the trademark of "Lingfengyuan" in March 2011, the members are not only engaged in raising traditional species, positioning of its products is changed from low-end market to moderate-end market. For example, considerable profits were made by producing high-quality eggs, the hens ate no longer traditional feeds but also carrots, pine needles and earthworms which ensures the security of products, enhances the health care function, and also satisfies the requirement of consumers on healthy foods. In August 2011, the cooperative participated in the 11th Agricultural Expo of China to promote its popularity and indeed won the acceptance of consumers. The next step for the cooperative is to construct its own network platform and further expand its market.

**2.3 Mitigating risks effectively** The following suggestions are given to mitigate risks.

(i) Running diversified businesses. Jilin Farmers' Cooperative is mainly engaged in the hog feeding, but on the basis of which many other products can be made, especially processing of relevant products. Diversified businesses help mitigate risks, even if a certain industrial chain fails, the loss can be made up through developing other products.

(ii) Raising funds from different sources. The cooperative should raise its funds from different sources, for example, joint investment of the members, loans from rural credit association, government support and public funding.

(iii) Buying suitable insurances. Suitable insurance types should be bought according to different sections of production and operation, for example, goods transportation insurance, business interruption insurance (or loss of profits insurance), agricultural insurance, employers' liability insurance, product liability insurance, fidelity insurance and performance insurance.

**2.4 United support system of cooperative, government and university** Popular policies for enriching farmers in China mainly adopt the government-cooperative development pattern, but this pattern is found ineffective throughout years of application. Major reasons are concluded as below through investigating and interviewing. First, farmers have poor capability of understanding and accepting new knowledge and policies, thus they are not able to improve the existing production technology rapidly, let alone the relation of production, in their production and management. Second, due to the limited government efforts and professionals in agricultural technology, it is impossible for farmers to obtain the instruction they need at all times. In addition, government is not a special agency for studying agricultural production technology, thus hysteresis exists in its knowledge update and supply. Out of the above mentioned two reasons, the authors suggested to introduce other party to the

development pattern to form the cooperative – government – university pattern. Participation of universities can settle the problems effectively because universities have a great number of research talents, they are experts in this field and always the first ones to understand and apply the latest knowledge, moreover, universities have also rich resources such as talents and technology. Government can work as a link to redistribute talent resources of universities, introduce them to rural areas, and help the rural cooperatives settle problems that government fails to do due to the lack of resources. And this pattern is favorable for turning the advanced theoretic research fruits to the advanced productivity.

### 3 Conclusions

Jilin Farmers' Cooperative is a representative of rural cooperatives in northeast China, the cooperative operation is suffering from many problems such as low level of standardization, unscientific market positioning, poor capacity of mitigating risks, and poor ecological benefits. These problems are also frequently found in the initial development stage of other cooperatives. The research team adopted corresponding measures in view of these problems, for example, improving comprehensive management quality of the members, enhancing brand consciousness and market consciousness, mitigating risks, and forming the united support system of cooperative, government and university. Cooperatives of the same type can learn from and improve their operation by analyzing the development of Jilin Farmers' Cooperative.

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