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Agricultural Producer Groups in Poland: Empirical Survey Results

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Abstract

The article presents basic results from an empirical survey carried out in Poland with leaders of farmer organizations called producer groups. The main objective of the research was to understand the process of formation and the mechanism of functioning of the groups as well as to identify problems and critical points during the groups' running. The data suggest that the core element to understand the phenomena of producer groups in Poland is not only to analyze the economic and market situation of the groups, but also to investigate the nature of collective actions in their governance dimension.

Key words: Producer groups, Poland

Introduction

The aim of this paper is to present the main empirical results from a survey carried out in Poland with leaders of organizations called producer groups. Producer

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groups are akin to marketing cooperatives and in the Polish law are defined as organizations whose main aim is to introduce agricultural output produced by individual farmers to the market. These groups can be established only by producers [Legislation, 2000]. There are several possible legal forms of producer groups. First of all, they can function as a purely oral agreement among farmers and have an informal character. Second, groups can have formal, legal character. Such groups have to be officially registered in court, as a co-operative, association, union or commercial company. Groups registered in court can apply for subsidies paid within EU programs as if they were individual farmers. Additionally, groups which fulfill certain conditions can be registered in the province office and apply for financial support offered to them from state and EU resources.

A few years ago both the Polish government and the EU authorities foresaw that due to the above potential benefits, Polish farmers would be very eager to associate themselves in groups. Producer groups were perceived as a chance for small Polish farms to concentrate their production, to increase income of the farm holders and in more general terms to regulate the Polish agricultural market, which is highly unpredictable and still suffers from both over- and underproduction. In the years 2000, 2003 and 2004 a few bills were passed by the Polish Parliament in order to provide a legal framework for the establishment and functioning of producer groups in the country, and also to offer financial subsidies to encourage farmers to associate [Legislation, 2000 with later amendments]. Producer groups in Poland nonetheless, contrary to those predictions, still had a very marginal share in terms of both the volume of the goods marketed and the number of associated farmers.

In July 2003 an interview with a civil servant from the Extension Service for Wielkopolska Province was carried out in order to find out basic facts and problems related to the topic. According to the interview, in 2003 producer groups included only about 2% of farmers in the province. What is more, over time there were fewer and fewer groups, and their interest in the subsidies offered to them by the government was quite low. Neither the bills and subsidies offered for the groups, nor the efforts of the extension service and other State agencies to promote this type of rural cooperation had much success. A few groups nonetheless were identified which were functioning quite well.

The central research question posed in this paper was: what are the determinants of success or failure of producer groups in Poland. Why do some groups split up and some grow and bring profits over time? The research question was motivated by the conflict between farmers' individual profit maximization incentives versus overall profit maximization of the producer group. In related work [Banaszak, Beckmann, 2006] this collective action problem was studied using transaction cost theory and noncooperative game theory. This article is of an

empirical character and therefore the theoretical framework will not be further discussed here. This research, as with the other papers in this special issue was a part of and was supported by the Integrated Development of Agriculture and Rural Institutions in Central and Eastern European Countries Project, which focused on the role of social capital, trust and innovations in rural development. The project was funded by the 5th Framework Program of the European Commission.

Methodology

Research Cluster. Producer groups in one province were selected as the object of the research. The chosen province of Wielkopolska is one of the 16 provinces in Poland and is located in the western part of the country. The province covers 9.53% area of the country, and is inhabited by 8.66% of the total number of people in Poland [GUS, 2004]. A few factors contributed to the selection of this Province as the research cluster. The most important ones were availability of basic data about all producer groups in this region, good knowledge of the province and local circumstances by the author, and the fact that the agriculture sector in Wielkopolska is on average better developed and more advanced than in other parts of the country. The choice of one of the best developed provinces, particularly regarding agriculture, as the research cluster was motivated by the suggestion that producer groups could fail due to a maldeveloped structure of agriculture or due to a maldeveloped structure of the market. By selecting a province which is characterized by better economic and agricultural indicators than the average for the country, we can to a certain degree avoid these suggestions.

Methods and Techniques of the Research. The cross-sectional research design, sometimes also called social survey, was selected as a research method for this investigation. In early 2005, the time when the research was completed 55 functioning groups and 19 groups which stopped their activity were identified within the Wielkopolska Province. The intention was to interview the entirety of the recognized groups, however, due to a few refusals, to health or family problems of the leader, and time constraints, eventually 50 functioning groups and 12 which stopped their activity were subjected to the research. The 50 functioning groups associated 4,056 farmers, the 12 split up groups associated 394 farmers.

The structured interview with producer group leaders was organized into a questionnaire composed of five parts. The first part comprised 12 general questions such as the group's address, legal status, number of members, and activities performed. The further five parts regarded the process of formation of the group, functioning of the group (divided into three sections: management and decision making, production and marketing, and membership), costs and benefits of

cooperation, the role of the institutional environment, and leadership. These five parts comprised 120 questions in total.

Empirical results

General Information about Producer Groups in Wielkopolska. In total 62 producer groups from Wielkopolska Province were subjected to the research. By the time when the interview was carried out 50 groups were still operating, 12 groups stopped activity. The groups were not equally geographically distributed. Most of them were located in the area of Kalisz (19 groups), Poznań (17 groups) and Leszno (13 groups). The average number of members per group was 71, the smallest group, in fresh tomatoes, had only 5 members, the biggest, in potatoes, associated 700 farmers.

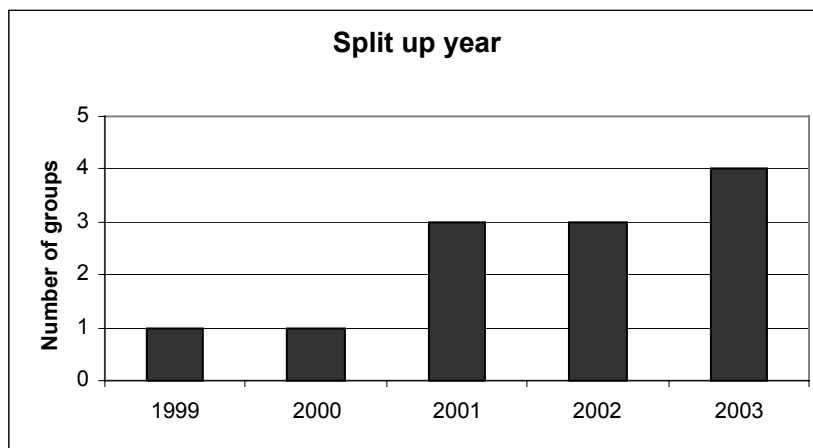
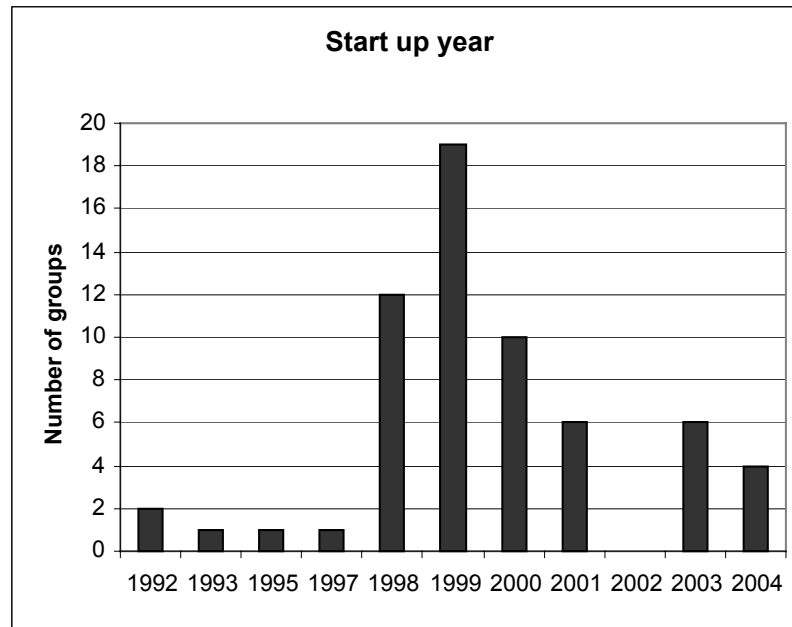
Regarding the start up year, most of the groups were established in and around 1999, though interestingly the earliest group initiated cooperation in 1992. Of the 12 groups which split up, most of them stopped activity about the year of 2002. The start up and split up time distributions are presented in the figures below.

The most common legal forms of the groups were ‘associations’ and ‘unions’. Twenty-three groups were functioning as associations, 18 as unions, 14 as limited liability companies, 5 as informal groups, and only 2 as cooperatives. Considering the main output produced by the members, the prevailing number of them were dealing with pork (35), 13 groups were in different kinds of vegetables, 4 in fruits, and 3 in grains. There was only one group involved in each of potatoes, pork and cattle, hops, mushrooms, poultry, and rape, and one group of described as of ‘general’ character.

Regarding the functioning groups, joint sales of the output produced by the members were conducted by 80% of the groups. Seventy eight percent of the groups organized different kinds of training and educational trips for their members, 68% of the groups organized joint purchases of the means of production, 56% integration events, and 28% joint transportation of the output.

A few groups were also performing some other, less common kinds of activities. For instance four groups organized insurance for the members, three other groups were sorting, packing and storing the products together, two groups were preliminarily processing the output (one group was slaughtering pigs, and one was drying and purifying rape). Another interesting finding was that members of one group in tomatoes were producing the product together, jointly owning the land and the means of production (like in an old style cooperative). A few other groups also reported organizing self-credits for members (self-credits are member

Figure 1 Start up and split up years of producer groups (N=62)



contributions to a common fund from which members can obtain emergency interest-free loans).

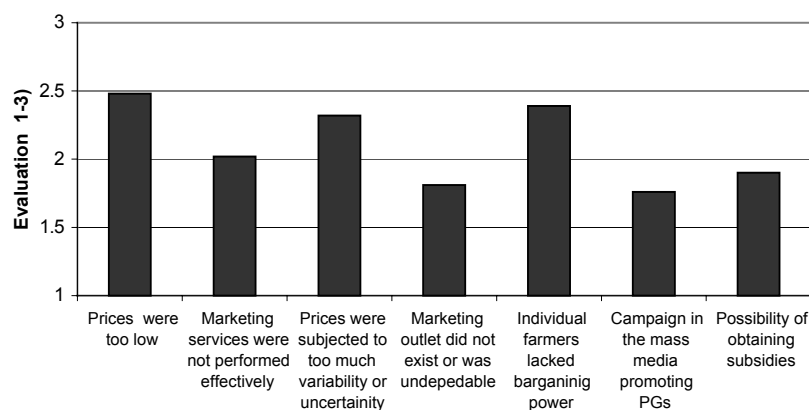
The Process of Formation of Producer Group. The interviewers reported seven different direct types of actions which resulted in establishing the group. For 40% of groups it was one of farmers who started to organize the group. These initial organizers were usually local community leaders, and often were members of other agricultural non-governmental organizations such as trade unions and associations of pork or fruit producers.

A further 24% of groups were formed as a result of a meeting for farmers organized by the agricultural extension service or the municipality office. Seventeen percent of groups, particularly these in pork, were formed as a result of farmers' strikes which took place at the end of 1999 and beginning of 2000. Farmers were protesting against a dramatic decrease in the price of pork and in most cases they were blocking the roads. As the interviewees reported, the strikes created for the farmers an opportunity to meet and discuss their situation together, and also it was for them often the first time when they undertook joint actions. The meetings and discussions brought the farmers to the conclusion that only if they were united and associated in some kind of organization, would they be strong enough to impact on the government and to influence the agricultural market. Among other direct actions which resulted in the formation of groups were initiation resulting from a local processing plant (10% of groups), by an outside businessman (3.2%), by a former socialistic municipality cooperative (3.2%), and in one case (1.6%) the cooperation was initiated by a wholesale market. The stage of planning and organizing the group took usually about 5 months, and on average 6.5 people were involved in the planning stage.

The majority of interviewees reported that most of the farmers who formed the groups knew each other before. The acquaintance resulted mainly from ordinary neighborhood relationships (89.8%), social relationships (50%, such as from membership in the same cooperative, organizing the strikes together, membership in other organizations), business relationships (24.2%), supplying the same plant (13%), and family relationships (6.5%). Only in the case of three groups (4.8%) did most of members not know each other before.

Regarding external factors which led to formation of the groups, the respondents pointed too low prices as the most significant (2.48 on a 1 to 3 scale, where: 1-not a factor, 2-minor factor, and 3-major factor), lack of bargaining power by individual farmers (2.39), too high variability or uncertainty of prices (2.32), and ineffectively performed marketing services (2.02).

Figure 2 External factors leading to the formation of producer groups (N=62)
 (1 to 3 scale, where: 1-not a factor, 2-minor factor, and 3-major factor)



The average starting up capital varied quite much amongst the groups. The mean equaled 6,137 EUR, allocating 347 EUR per member. The standard deviation from the mean, however, was quite high. Five groups did not have any starting up capital, and one group in fresh tomatoes had a starting up capital amount as high as 113,925 EUR. Only three groups used debt as a source of the initial capital. In one case the money was borrowed from a commercial bank, in the two other cases from earlier unions of producers on which bases the producer groups were formed.

Considering the choice of the marketed output by the groups, in most of cases it was in accordance with the previous production of farmers who joined the group (about 89%), in only 8% of cases the product was chosen due to anticipation of high profitability, in one case due to availability of drying equipment, and in one other the choice was made by an extension civil servant.

Taking into account the critical problems which resulted in the break up of cooperation in 12 groups, two groups reported that they split due to fear of bureaucracy and taxation which would come if they had started to perform joint sales. Two other groups reported having problems with finding purchasers for the output, after the businessmen who initiated the group stepped back from the cooperation. One group was destroyed by middlemen who offered better prices to those members who sold their products outside the group. The most frequent critical problem was, however, what the respondents called “mentality of the people”. It was a problem of commitment to and trust in the leader and other

members. Members of two groups were scared of changing their old purchasers, and rejected selling their products to the purchasers with whom the group signed a contract. Members of three other groups did not agree to hire a manager or to pay a salary to their leaders which would compensate their time spent on group activity. Leaders of two of those groups even had a problem with reimbursement of their expenses related to leading the group, such as phone calls and costs of the fuel. This resulted in cooling down the leaders' motivation to lead the group. One other group was embroiled in a conflict between two neighbouring villages, where one village spread false information about the group leader (who was living in the other village) which resulted in confusion of the members and decreased their commitment. In the last case, the leader defrauded the group of money. The members "burned" with this negative experience did not want to continue the cooperation.

Functioning. As already mentioned, among 62 groups investigated in this piece of research 50 were still functioning while 12 groups have split up. In this section only the groups which were functioning when the interview was carried out will be taken into account. Questions within this section were organized around 2 topics; management, decision making and membership issues and production and marketing. Additionally, in the section on production and marketing only the 40 groups which performed the task of organizing joint sales of the output produced by individual member-farmers will be considered.

Management, decision making and membership issues. Considering the 50 functioning groups, the average number of managers in the group management team was 4.22. The maximum number of managers was 12 persons, 3 groups did not have a management team at all, and 2 groups had 1 person management (the function was exercised by the leader). Nine groups reported having an 'outsider' in their management team – usually it was an extension service official. For half of the groups the most important executive (taking most of decisions) was the management, for 27.4% the leader, for 13% all groups members, and in case of 9 groups (14.5%) there were no decisions taken that time at all (due to experiencing crisis).

The respondents were also asked how they would describe members' participation in the decision making process, specifically whether the members are passive and do not suggest/propose anything to the management, or from time to time they propose to do something, or they are very active and often propose the management or leader to do something. The results are in accordance with normal distribution, 26% of leaders described their members as very passive, 46% as proposing something from time to time, and 28% as very active.

In most of groups, members were rather acquiescent, only 36% of groups have reported experiencing any member conflicts. Similarly with respect to expressing

complaints by members, only 24% of groups have reported the articulation of complaints by the members against the management or leader's performance.

The conflicts were mainly related to commitment issues, such as selling products outside the group without permission, and lack of a common vision for the group (8 groups). Other areas of conflicts cited were due to financial problems and lack of transparency (4 groups), bad management, some failed decisions taken by the management (3 groups), and due to the leader's performance (1 group).

The most common area of members' complaints was that the management negotiates too low prices or there were delays of payments (7 groups). Other complaints regarded the plant's policy, performance of the management, performance of the leader, and organization of the transportation (in each case 1 group).

Only half of the existing groups used some kind of marketing agreement between the group and its members, and only 36% of these groups have imposed any sanctions for not fulfilling the agreements. This low rate of formalization and rigorousness of the performance must nonetheless be considered in terms of embeddedness of the groups in their local institutional environment. Many of the leaders pointed out that it is difficult for them to apply formal rules and sanctions towards the group members, who are often their close neighbors and friends. It could be observed therefore that the degree of formalization of the members is dependent on the size and geographical dispersion of the group.

Production and marketing. The majority of interviewers (64%) declared that the volume of goods marketed by the group grows over time. Most of the groups sell the products directly to processors. Processors are the main source of sales for 79.5% of groups. Twenty five percent of groups indicated wholesalers as the main source of sales. Only one group (2%) indicated 'other' as the source of sales, mainly retail stores and restaurants.

Generally speaking, the position of the groups within the retail chain was quite good, half of the groups pointed to processors producing final goods as the most important purchasers of groups' output, 37% of them pointed processors producing half-processed products, and only 12% of groups pointed middlemen as the main source of sales. Also the contracting position seemed to be quite good for the producer groups in this study. 61% of groups reported having long-term contracts with the purchasers, with different levels of formalization but with the price not stated in the contract. Twelve percent of groups used short-term contracts. Twenty two percent did not have any agreement, although the purchasers were the same each time they sold. Only two groups (4%) were selling their products each time to different purchasers. The data shows a relatively high interdependence of the groups to the purchasers. On average each group performing joint sales of the products produced by their members was selling the output to 1.7 processors and

1.5 middlemen. Nonetheless, due to the high fluctuation of the prices, the groups did not perceive themselves as independent nor as having a good position on the market.

Seventy-six percent of interviewees (46 leaders of groups which negotiate prices for their members) declared that on average their group members obtained higher prices than non-member farmers. For 24% the price for members and non-members was the same, and there were some cases where members obtained lower prices than non-members. The price for members was on average 8.7% higher than for non-members.

The Profile of the Group Leaders. The majority of the leaders were leading their groups since the beginning of their establishment. Only 24% were second or third group chiefs. The average period of leadership was about 4.5 years. The most frequent reason of the leader's change was that the previous one was too busy with other things, and did not have enough time to devote to the group (5 such cases), in two cases the previous leader appeared to be dishonest, and in other single cases the change resulted from: the previous leader not selling his products with the group; passivity and lack of managerial skills; due to death of the leader; due to a change of the vision of the group and new elections; and in the last case the group had a rule that the whole management team and the leader must change every four years in order to give a chance new people and that the managers will not get accustomed to their positions.

The leaders saw their own role in the group as quite principal. About 60% of them agreed with such sentences as: "It was I who had the biggest impact on this how the group looks like today", "I convinced most of the members to join the group", "I found most of purchasers of our output", and "I take most of decisions regarding the group". Nonetheless, almost all the leaders (97%) appeared to be fairly democratic and admitted that they always ask other members for advice before taking the most important decisions. A significant amount of leaders (about 75%) also reported having good knowledge of the local people, the local environment, and the local decisions makers, which means overall they have good positions within the local networks.

Regarding personal characteristics of the leaders, the mean age was 46 years, the youngest leader was 25, the oldest 62. Only one leader was female. The majority of them were married, only 3 respondents were single. Most of the interviewees declared to have secondary education (58%), 22.6% declared a vocational education and slightly less (21.3%) higher education. The average education of the producer group leaders appeared to be much higher than the average education of Polish farmers. By comparison, only 15.5% of Polish farmers completed either secondary or high education [GUS, 2004].

Table 1 Leaders' education (N=62)

Leaders' education	Frequency	Percent
Vocational non agricultural	4	6.5
Vocational agricultural	10	16.1
Secondary non agricultural	5	8.1
Secondary agricultural	31	50.0
Higher non agricultural	1	1.6
Higher agricultural	11	17.7

Considering membership of the respondents in different non-governmental organisations, on average each of them belonged to two organisations. The most frequent was membership in some agricultural associations and on the second position local division of the fire brigade, and further local government. There were 15 leaders who did not belong to any organisation and one leader who belong to as many as 7 different bodies.

Almost half of the interviewees (48.4%) did not have any other professional experience other than working on the farm, 35.5% worked outside the farm, and 16% worked in the agricultural sector but not as farmers (most of them were employed by agricultural cooperatives). 6.5% besides declared having experience working abroad.

When the interview was carried out farming was the only one source of the income for over half of the leaders (51.6%), for 27.4% farming was the main source of income, for 14.5% farming was just additional source of income, and 6.5% reported to have only other than farming source of income (these were usually professional managers, or worked in some kind of other agricultural business). 43.5% of the respondents had some previous experience in managing other groups, cooperative or other management experience, and 34% of them finished management training.

Considering the time the leaders devoted for managing the group, the majority of them (61%), spent less than 10 hours per week working for the group, 13% spent 10-20 hours per week, 8% spent 20-35 hours, and 18% of the leaders spent more than 35 hours per week for the group. Most of the leaders worked voluntarily for the group. Only 12 of the interviewees (19.4%) received salary from the group for their work.

Critical Points During The Groups' Functioning. Leaders were asked to rank problems they had to overcome on a likert scale of major problem (3), minor problem (2) or not a problem (1), and also give other not listed problems. What was remarkable, among the first five major problems, only two are related to the economic issues, and the three other are related to governance and collective action issues.

As the most frequent problem to overcome the leaders saw members' commitment and loyalty of the members (mean rank 2.13). Finding purchasers for the output was ranked as the second most frequent problem (mean 1.87), to obtain financial support available for producer groups was seen as the third one (1.84), to build trust among members as the fourth one (1.82) and leadership was seen as the fifth most frequent problem to overcome (1.76). Also among other, not listed problems such institutional components as individuality of farmers, to encourage other farmers to join the group, lack of knowledge about market mechanisms among members, mentality of the people and willingness to have immediate profits, and pessimism of the members were quoted as the major problems for the group to overcome. In the total quoted by the respondents other problems were related to governance factors and to economic issues (such as difficulties to obtain a credit for the group, to find capital, or to deal with price fluctuations).

Conclusions

This article presented the main empirical results from a survey carried out in Poland with leaders of farmer marketing organizations called producer groups. The primary aim of producer groups is to organize joint sales of goods produced by individual farmers. The survey was conducted within one province from which 50 representatives of functioning groups and 12 representatives of groups which split up were interviewed.

The majority of the groups subjected to the researched associated farmers producing hogs, vegetables and fruits. The average number of members per group was 71. The main 'official' task of producer groups, which is marketing of the output produced by individual farmers, was performed only by 80% of the functioning groups. Most of the groups started up around 1999, just before introduction of the legal bills about producer groups. Usually the cooperation was initiated by one of the farmers, seen as the community leader. Some groups were formed in cooperation with a former socialistic municipal cooperative. The groups were regularly formed among people who knew each other; the acquaintance resulted mainly from ordinary neighborhood relationships. Although the groups appeared to fulfill many social and educational functions too, the most important

motives and aims of establishing the groups were usually of an economic character, such as earning higher profits and gaining higher prices. Considering groups which split up, most of them stopped their activity around 2002. The most frequent reasons for breaking up were trust and members' commitment problems. The functioning groups usually were characterized by strong leadership (the leader together with a few management members). Overall the market position of the groups which performed joint sales looked quite good in the data; nonetheless, due to the high fluctuation of prices, the groups perceived themselves as dependent on their buyers and the whims of the market. The interviewees saw commitment and loyalty of the members as the most frequent problem during the groups' functioning. The above findings suggest that the core element to understand the phenomena of producer groups in Poland is not only to analyze the economic and market situation of the groups, but also to investigate the nature of collective actions in their governance dimensions. For the associated farmers the critical problem appears not to be production or finding purchasers but to come together, understand each other, trust each other and avoid of free riding and self profit maximization behavior.

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Legislation

Act from 15th September 2000, Ustawa o grupach producentów rolnych i ich związkach oraz o zmianie innych ustaw wraz z kolejnymi zmianami (Dz.U. 2000, Nr. 88, poz. 983)