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**STRATEGIC ASPECTS FOR THE MANAGEMENT
OF AGRICULTURAL COOPERATIVES' TRANSFORMATION
IN HUNGARY**

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Abstract: The results of the agricultural transformation has showed a mixed picture in Hungary.

Today it is very difficult to anticipate what type of farming will be dominant and when will the process be finished. The cooperative laws have strongly been effected by political influence and created internal conflicts among different groups of cooperative owners. The elaborated model and practical experience shows some possibilities for integrated business development among the assets and land owners.

Key words: cooperative transformation, integrated management, strategy.

1. INTRODUCTION

The transformation of the Hungarian agriculture is started in 1992, when the laws about cooperatives were entered in force. According to the cooperative laws the assets of the cooperatives were distributed hundred percently among the active, retired members and the successors of former members.

As a result of the assets distribution, at national level, 260 billion assets value were divided in 1386 cooperatives, 41,5 % to the active, and 38,7 % to the retired members and 19,8 % to the outsider owners.

2 . BACKGROUND OF TRANSFORMATION IN HUNGARIAN AGRICULTURAL PRODUCTION COOPERATIVES

The hungarian Agricultural Production Cooperatives (APCs) developed

important structural transformations after the entry in force of three Laws on cooperatives (compensation, cooperatives, transformation). However, these Laws are not the sole elements leading to a change in the cooperatives situation. The APCs bad adaptation to a market economy required also a great change in their structure and in their management in the purpose of increasing their ability to handle an economic competition in internationally opened free markets.

2.1. Transformation needs coming from the APCs strategic position in agri-food economy

During the past, the APCs were exclusively thought as productive and social enterprises. The trading of the productions was assumed mostly by official channels and prices were mostly stable. In this relatively protected environnement, APCs had not to think about marketing problem or about their strategic position in the agri-food industry. They only had to produce with a great number of state supports.

However, the hungarian transformation of economy obliges APCs to reconsider this situation :

- the freedom of prices oblige APCs to really manage the trading of the productions,
- the obligation of finding a market for productions oblige APCs to take strategical decisions in agri-food markets,
- the world trend of excess in agricultural production oblige APCs to develop abilities in agri-food marketing,
- the world trend to concentrate more and more the agri-food industry and trade oblige APCs to concentrate them in the purpose of reaching the minimal competitive size in national or international agri-food markets.

As a result, APCs must transform their stuctures in the purpose of strengthening their strategic position in the national and international agri-food

economy. Notably, they must concentrate them and integrate agri-food industries and trade channels, individually or through constitution of unions of cooperatives or associations in companies. It is also important to note that the management, essentially constituted of engineers, must develop new skills, notably in marketing, strategy, market economy, finance and management.

2.2. Transformation needs coming from APCs nature and managerial situation

The situation of the APCs being well known, their main characteristics were :

- members were obliged during the collectivisation process to deliver their own lands and their livestock in the cooperative and had to give up gradually the individual ownership of their lands,
- members were obliged to integrate the cooperatives (co-owner, employee and integrated small part-time farmers),
- cooperatives were managed by an elected body but the main decisions were in fact decided by a planification and regulations,
- an important amount of state subsidies had been given to them, directly or through prices, in the purpose of developing agricultural production and to ensure employment in rural countries.

According to the mentionned facts, the Agriculture Production Cooperatives (APCs) were not really pure production or service cooperatives.

2.2.1 The transformation needs coming from APCs nature

The new orientation of hungarian economy oblige APCs to transform their socialist oriented characteristics towards market economy oriented enterprises.

This means the following consequences :

1. The cooperatives must develop a real entreprise spirit, notably with the objective -even in a cooperative- of realizing economic profit.
2. Cooperatives laws must first be turned towards economic efficiency and not towards the non economic satisfaction of members .

3. The risk of activity and the risk of bankruptcy must be undertaken by members.
4. Decisions concerning the main orientations must only be taken by the persons that are bearing the risks.
5. Social objectives must be considered not as a due to members but as a result of economic efficiency.

2.2.2 The transformation needs coming from APCs managerial situation

The managerial situation of APCs was issued from its company character and from assigned socialist goals. As a result :

1. APCs were essentially thought on a human collectivity basis with the purpose of ensuring an acceptable level of life as well for active members as for retired members.
2. Ensuring employment and building human collectivities being the main purposes, APCs were not fully profit oriented and none members bore any risks.
3. To realize the local goals, different kinds of economic activities were melted in the same organization. As a consequence, the different activities were non differentiated and so, the transparency was missing. As a result, it was not possible to know which one was profitable and which one was generating losses. As another result, the losses of a specified activity were borne by the others.
4. Individual efforts were not remunerated in accordance with economic results but according to social considerations. As a result, there was an alignment of each individual to the lowest performance that collectively led to a bad economic efficiency.

2.2.3 The main consequences of the transformation

1. APCs cannot still be considered as a human collectivity, but must mainly, if not only, be considered as an economic enterprise with the objective of realizing an economic profit in free markets.
2. As said previously, members must bear economic risks.
3. To improve the adaptation in the different markets, it is necessary to

separate the different activities in independent business units centered on specific skills and markets.

4. Members of each independent unit must collectively bear the economic risks of this specified activity and as corollary must be individually remunerated in accordance with their own contributions to the economic result of the activity.

5. To be competitive, each activity must research economy of scales in its market.

3. MODEL OF THE COOPERATIVE-GROUP STRUCTURE

As explained previously, the need for transformation of the APCs comes both from legal, managerial and strategic needs. The proposed model is to favorize the economic development of the new cooperatives considered as economic enterprises functioning in a market economy. This proposition is made accordingly within the existing legal framework. However, it must be recalled, as explained previously, that this legal framework introduces major complexities in cooperative management and constitutes a real handicap for their economic efficiency and for the efficiency of hungarian economy.

3.1 The cooperative-group basic structure

As an organizational model, the basic structure on the cooperative-group is a conceptual proposal which real cooperative-groups can be derived. Of course, the real structures will integrate more legal or institutionnal constraints than those that can be taken into consideration in this model.

The three main separations and the four categories of organizations:

The various business units that can be formulated inside the cooperative-group are defined according to three main separations mentioned previously.

1. separation of active members vs. non active members vs. non members;

2. separation of management of ownership vs. management of activities ;
3. separation of the different business units managing the members activities.

As a result, the different business interests constituting the cooperative-group can be distributed in four main categories according to their specific aims :

1. company managing the ownership of active members,
2. company managing the ownership of non active members and of external owners of business shares.
3. companies such as Cooperatives, Shareholding Companies (RT), Ltd (KFT), partnerships (BT), etc. managing the economic activities of the members,
4. economic companies of non members that can eventually be linked to the cooperative-group.

The diagram shows also how the companies managing ownership and activities of active members can be linked in an integrated business development. In this group structure, the company managing the members ownership plays a crucial role: it not only remunerates the shares of the members, but it also plays a major role in all decisions concerning the strategic position of the cooperative-group in the agri-business sector, in financial participations in the agri-food sector, in the long term finance of the activities and in helping the operationnal management of the integrated activities. So, this company realizes the integration of short term objectives of managing activities with long term objectives of the group concerning the strategic position in the agri-food sector. In other words, the vertical and close relations between active members ownership company and members companies managing activities constitutes, in a way, the spine of the cooperative-group development and, moreover, the spine of regional development. However, this spine has a weakness that has already been pointed out, that is the conflict of interest potentially exist between active and non active members.

4. CONCLUSION

There can exist a large scope in the integration of the economic activities : from absolute independence of integrated companies to a total control on the subsidiary by the holders-cooperative. The diverse degrees are depending on several factors, such as financial situation, willingness of members and management, vision of the development, debt situation, etc.

4.1 Institutional integration

The first form of integrating the companies managing activities in the cooperative-group is an institutionnel integration. This is probably the most important form of integration. The institutionnal integration consists in having representant of each integrated company in the Board of Directors of the holders-cooperative. It is strongly recommend to elect a representant of each integrated company and a representant of the owners in the Board of Directors of the holders-cooperative.

4.2 Financial integration

The integration of companies managing activities can also be made on a financial basis. These possibility is only relevant for joint stock companies. Cooperatives cannot be considered as subsidiaries because they are generally defined in accordance to the contributions of their members and not according to a delivery of financial capital. In the present hungarian case, cooperative integrated in the cooperative-group are separated from the holders-cooperative precisely to isolate them from the question of ownership remuneration

There is a large scope of possibilities of financial integration of joint stock companies. They are defined in accordance with the part of assets detained by the holders-cooperative :

- Total control on ordinary decisions : ownership of more than 50 %,
- Minority participation : ownership of less than 50% ,
- Total independance of the company : no ownership of the holder.

It must be recalled that according to the laws or the by-laws, there can exist another levels of required majority to take some decisions. It is important to keep in mind these levels when deciding to take a financial participation.

4.3 Integration by economic relations from holders-cooperative to integrated companies

The integration from holders-cooperative to integrated companies can also be made on the basis of economic relations. This kind of integration can be used both with joint stock companies and cooperatives or again with other forms of companies.

There can exist many forms of economic relations. The main are :

- renting or leasing of physical assets,
- financial loans,
- management of treasury at a central level,
- providing of services such as accounting, taxing, training, advise in management, marketing and strategy. etc.

All these relations must be established on the basis of clear contracts in which the rights and the duties of each parties must be carefully defined in respect with the interests of the different parties.

4.4 Integration by economic relations within integrated companies

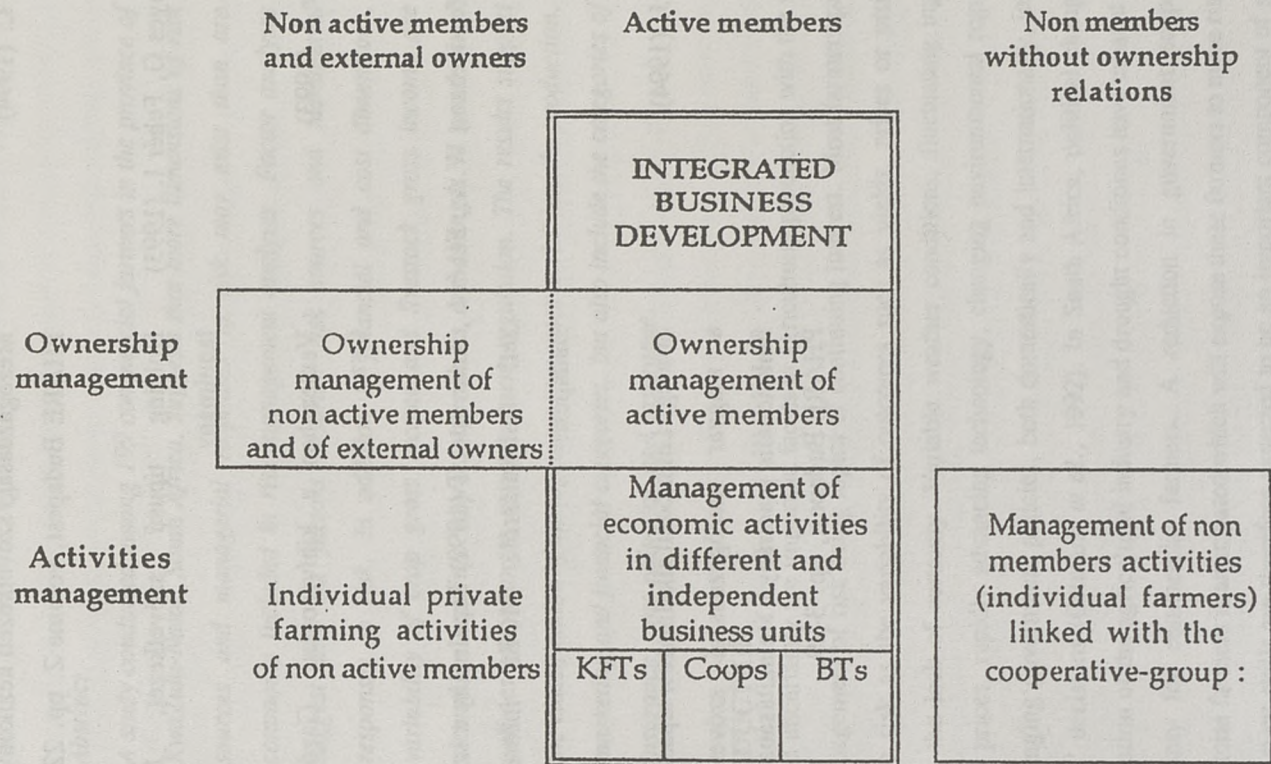
The integrated companies can also develop economic relations between them. For example, a dairy company integrated in the group can buy cattle feed to another company belonging to the group. These economic relations contributes to the group integration. However, it is strongly recommended to freely establish them. Furthermore, economic competition must work and an integrated company must be free to trade with an external company, within respect of the contracts.

4.5 Integration of economic activities of non active members

To complete the analysis of the cooperative-group, it also must be noted that

it can integrate, on a contractual basis, the economic activities of non members. In fact, that is to say the economic activities of old members having left the cooperative with physical assets. These members are generally too small and to much isolate to obtain competitively factors of production such as seeds or amendments and to market their productions.

In other words the old members having left the cooperative can have a need to make trade and getting services through the cooperative. More, they can have the need to create a farmer cooperative that can contractually uses the assets of the cooperative-group. In the purpose of regional development, it is proposed that the cooperative-group must accept to work with old members on a contractual basis.



BASIC STRUCTURE OF THE HOLDERS' COOPERATIVE GROUP

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