



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

NEW MODES OF GOVERNANCE OF COOPERATIVE  
ARRANGEMENTS IN AGRICULTURAL MARKETS: THE  
CASE OF POLISH PRODUCER GROUPS

Ilona Banaszak and Volker Beckmann

E-mail: v.beckmann@agrar.hu-berlin.de



2009

*Paper prepared for presentation at the 49th annual conference of the  
GEWISOLA (German Association of Agricultural Economists)  
“Agricultural- and the Food Markets after the Boom”  
Kiel, Germany, September 30. – October 02. 2009*

Copyright 2009 by authors. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

# NEW MODES OF GOVERNANCE OF COOPERATIVE ARRANGEMENTS IN AGRICULTURAL MARKETS: THE CASE OF POLISH PRODUCER GROUPS

## Abstract

The cooperative movement in Poland has a long but difficult history. The socialistic regime introduced a command and control system into cooperatives which was destructive to their self-governing functions and eventually led to a lack of member involvement. There was a mass neglecting and abandonment after the transformation in particular of rural cooperatives. Nonetheless, in the early 1990s the first farmers' cooperative marketing organizations, called agricultural producer groups, appeared on the market. They are bottom-up, voluntary organizations whose main purpose is to jointly sell their members' output. Although producer groups functions similarly to marketing cooperatives, farmers establishing producer groups have been choosing other legal forms than cooperatives. In the paper we investigate why the new forms of governance of cooperative arrangements are chosen and what are the implication of these choices for the success of the groups on the market. We discuss the impact of invested capital, the impact of advisors, and the impact of institutional environment on this choice. The empirical data was collected on 62 producer groups functioning in one province of Poland.

## Keywords:

Co-operatives, Governance, Organizational choice, Poland, Producer groups, Socialist legacy

## 1 Introduction

Polish agriculture has been suffering from structural problems for many years, manifested mainly in small farms, a surplus of labor, old inefficient machinery, and a lack of investment. Establishing farmers' cooperative organizations, which would help farmers increase the amount of goods offered on the market, save on transaction costs, and overtake a portion of profits conventionally gained by middlemen, could be expected as one important response to such a problem.

The cooperative movement in Poland, however, has a long but difficult history, which has been causing an aversion among farmers towards cooperation. After World War II, the socialist regime introduced a command and control system into cooperatives which was destructive to their self-governing functions and eventually led soon after to a lack of member involvement. Cooperative members were not able to make their own decisions; even cooperative leaders were assigned by the state. As the socialistic firms grew in size, their members adopted a wage-worker mentality in relation to the enterprise and its property, which resulted in severe inefficiencies (CHLOUPKOVA et al. 2003: 249). BRODZIŃSKI (1999: 168) mentions that Polish farmers who used to be members of socialist cooperatives still retain a deformed image of the cooperative movement. They associate cooperatives with a lack of control and impact on decision-making.

Nonetheless, in the early 1990s the first farmers' cooperative marketing organizations, called *agricultural producer groups*, appeared on the market. Producer groups are bottom-up, voluntary organizations whose main purpose is to jointly sell their members' output (MAŁYSZ 1996: 13-14). Selling the output both improves the market position of the members and may lead to higher prices. Additionally, associated farmers may benefit from information and knowledge sharing in the group. The formation of producer groups does not, however, imply a change in property rights of the means of production. The farmers owe jointly only profits worked out as a group; they do not merge their farms.

Although producer groups function similarly to marketing cooperatives, farmers establishing producer groups have been choosing other legal forms than cooperatives. The legal form of cooperative is actually adopted by only about 2% of producer groups (BANASZAK 2008a: 76). Other groups function as limited liability companies, associations, unions, and also as informal groups not registered in the court.

In the paper we investigate why the new forms of governance of cooperative arrangements are chosen and what are the implications of these choices for the success of the groups on the market.

Several authors investigated the impact of formal institutional environment on functioning of cooperative organizations. HANECHAN and ANDERSON (2001: 6-8) focus mainly on the importance of external support during the process of establishing cooperative organizations. ZIEGENHORN (1999: 68) draws attention to the role played by policy makers and extension advisors in providing and fostering agricultural improvements. KATZ and BOLAND (2002) analyze the emergence of new generation cooperatives. The new cooperatives appear mostly in niche markets and are characterized by closed membership and fixed amount of the product, which must be delivered under threat of sanctioning if members do not fulfill their obligations. The new cooperatives introduce sellable shares and ownership in such groups is linked to patronage. MÉNARD and KLEIN (2004: 754) indicate that background conditions of the organization of food and agriculture such as the agricultural policy and consumer demands might lead to discovering more efficient modes of organization.

In these terms the Polish producer groups represent an interesting case of an experiment with new governance forms of cooperative arrangements. Due to perceived inefficiencies of the traditional cooperative form, a variety of new legal and organizational solutions emerged in the sector. However, according to our knowledge, no analysis has been undertaken so far on the organizational choices made by producer groups and its possible impacts. In the following Section, we will provide conceptual underpinnings of the research and derive testable hypothesis based on transaction cost considerations. In the third Section we present methodology of the empirical research. Section 4 presents the empirical analysis and Section 5 concludes.

## **2 Conceptual Underpinnings**

### **2.1 Choices Faced by Farmers Considering Cooperation**

A farmer considering starting up or joining a cooperative organization must choose among a number of possible options. First, he can decide not to cooperate at all and organize their transactions in an alternative way. Second, an agricultural producer group is only one of several possible forms of cooperation between farmers and involves joint marketing of output produced individually by members. Numerous forms of alternative cooperation exist, such as joint machinery pools or cooperative credit systems (BECKMANN 2000: 94ff.).

The choice to set up a producer group does not determine the form of cooperation. The bill on producer groups does not stipulate which organizational form farmers are required to adopt; therefore, they can take any organizational form accepted by Polish law, or they can function as an informal group. Regarding groups that choose to adopt a formal organizational form, they can choose non-profit forms (e.g. an association or union) or those that enable accumulation of capital (e.g. a commercial company), of which the most popular is a limited liability company. Producer groups can also function as cooperatives located somewhere in-between non-profit and for-profit organizational forms (BOGUTA 2002: 19). Each of these forms is subject to different laws that determine the amount of taxation and ownership relations. A summary of the main characteristics of each legal form is presented in Table 1.

The simplest form the organization may take is an informal group. This form does not involve any permanent costs and does not bind farmers formally. Cooperation through such groups

might however, be very unstable as the members are not legally bound. Moreover, an informal group cannot officially undertake any economic activity. Such behavior goes against the tax law. If, for instance, one of the member farmers buys a larger quantity of fertilizer and sells it to other group members, the farmer must officially register the economic activity and pay taxes on any profits from it (ZARUDZKI et al. 2001: 25).

Associations are voluntary and self-governing organizations established to fulfill noneconomic goals. The members work voluntarily for the association, which can employ either members or non-members. Associations can represent their members in relations with institutions cooperating with farmers and negotiate prices or contracts with purchasers or sellers on behalf of farmers. This form can be established easily and cheaply and does not require any start-up capital (LEMANOWICZ 2005: 103, ZARUDZKI et al. 2001: 26). Associations have a simple structure and low establishment and running costs; however, the partners have no right to withdraw the accumulated capital or any profits. The accumulated capital and profits can only be spent on organizational activities as defined by the statute (Legislation: 1989, Art. 34).

Unions are voluntary, self-governing, and independent social and vocational organizations, established in order to represent and protect the interests of individual farmer. As with associations, establishing a union is simple and fast and does not require any start-up capital (LEMANOWICZ 2005: 103). Like associations, unions have low set-up and running costs. The members have the right to share or withdraw capital; however, the profits must be distributed equally among all members (EJSMONT and MILEWSKI 2005: 66).

A cooperative is a voluntary union of at least five people. Its main purpose is the running of an economic activity. As in commercial companies, cooperative members purchase shares, but the administration costs are lower than in commercial companies. The cooperative's property is the private property of its members, and members can withdraw the value of their shares any time. Each member, however, has equal decision-making power, which limits the decision-making impact of major shareholders. Nonetheless, cooperatives have to maintain comprehensive bookkeeping. As LEMANOWICZ (2005: 104) points out, cooperatives are currently unpopular among farmers due to negative experiences with cooperatives during socialism.

**Table 1: Comparison of Different Legal Forms Available to Polish Agricultural Groups**

<b>Characteristic</b>	<b>Association</b>	<b>Union</b>	<b>LLC</b>	<b>Cooperative</b>
<b>Legal foundation</b>	Act from 7 <sup>th</sup> April 1989 <i>Association Law</i>	Act from 8 <sup>th</sup> October 1982 <i>Social and Vocational Farmer Organizations</i>	Act from 15 <sup>th</sup> September 2000a <i>Commercial Companies Law</i>	Act from 16 <sup>th</sup> September 1982 <i>Co-operative Law</i>
<b>Purpose</b>	Social	Social and vocational, but can also be economic	Any	Economic, but can also be social
<b>Area of operation</b>	No limitations	The territory of Poland	No limitations	No limitations
<b>Members</b>	People, or legal entities only as supportive members	People	People or legal entities	People or legal entities
<b>Minimal number of members</b>	At least 15 people	At least 10 persons, at least 8 of whom run a farm	1 and more	At least 10 people or 3 legal entities, for agricultural production cooperatives at least 5 people
<b>Form of members' financial contribution</b>	Membership fees	Membership fees	Share	Share

<b>Minimal financial contribution per member</b>	Not defined	Not defined	At least one share with minimal value 50 PLN (=13 EUR)	At least one share, its value defined by the general assembly
<b>Participation in decision making</b>	Equal for all members	Equal for all members	Based on number of shares	Equal for all member
<b>Participation in accumulated capital</b>	Equal for all members	Equal for all members	Based on number of shares	Based on number of shares
<b>Member liability</b>	No liability	No liability	Based on value of shares	Based on value of shares

Source: Adapted from LEMANOWICZ (2005: 102)

For-profit forms, of which the most common form is the limited liability company (LLC), can be established by any number of people for any purpose. Its members purchase shares, the amount of which determines their decision-making power and their liability. Shareholders are owners of the company, and the accumulated capital can be divided among them according to the number of purchased shares. However, the LLC establishment process is more complicated and costly and has to be officially registered in a notary office. Similar to cooperatives, limited liability companies have to keep comprehensive books and pay taxes on profits (LEMANOWICZ 2005: 104).

The legislation also provides the legal foundation for financial support for producer groups. The bill from September 15, 2000 and its subsequent amendments enable all groups registered with province offices to obtain support up to the value of 5% turnover in the first year, and then 4%, 3%, 2% and 1% in the following years, and defined conditions of registration in the province office (Legislation: 2000, Art. 19 § 1).

The choice of whether to cooperate as a producer group and which organizational form to adopt are not the only decisions farmers need to make. Farmers also have to decide on the production type marketed by the group, where to locate it, which kind of leadership and membership structure to adopt, and the general concept of the group's vision and mission. Empirical evidence shows that producer groups perform different tasks, and, although organizing joint sales of output produced by individual farmers is their main task, some producer groups are only engaged in organizing such activities as joint purchases of the means of production, joint transportation, and trainings and other social events for farmers (BANASZAK 2005).

## 2.2 Factors Influencing the Organizational Choice

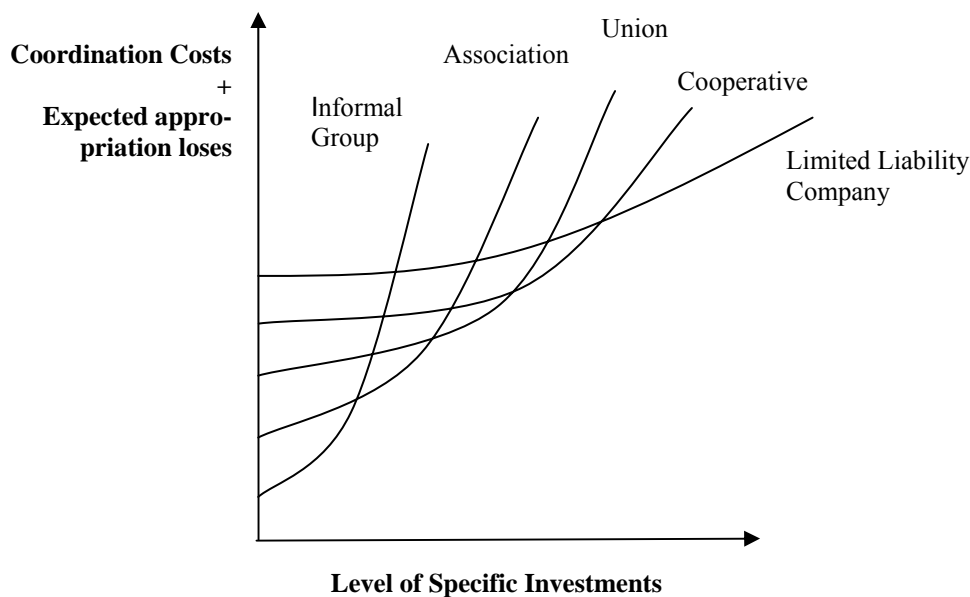
Producer groups operate in between markets and hierarchies. Their members do not integrate property rights and do not merge farms into the organization. It is their own decision when and to whom to sell the goods. Thus, we may classify them as hybrid organizations. Hybrid arrangements include such different forms as networks, subcontracting, franchising, partnerships and some forms of cooperatives (BECKMANN 2000). This variety of forms is "connected by the underlying idea that they participate to the same "family" of arrangements among autonomous entities doing business together, mutually adjusting with little help from the price system, and sharing or exchanging technologies, capital, products, and services without a unified ownership" (MÉNARD 2005: 295). A distinctive feature of hybrids is that unlike firms they do not integrate property rights; the partners integrate only a part of their resources and take jointly only a part of decisions in their domain of choice. "The emphasis is on the commitment of distinct property rights holders, operating distinct legal entities, but organizing some transactions through governance forms mutually agreed upon" (MÉNARD 2005: 294). MÉNARD (2005: 295-298) discusses factors which contribute stability to hybrid arrangements. Since hybrids tend to be created in highly competitive markets in which pooling resources is a

way to survive and decrease uncertainty, the problem faced by hybrids is how to demarcate joint decisions, discipline partners and choose conflict resolution mechanisms. As pointed out by BORYS and JEMISON (1989: 235) partners in hybrids often have different goals, making the resolution of conflicting interests and the maintenance of agreement a central problem.

The great diversity of hybrid arrangements is not a random outcome. According to Transaction Cost Economics (TCE), the decisions follow mainly transaction cost considerations (WILLIAMSON 1991; MÉNARD 2005a). The adopted forms are aligned with the degree of asset specificity involved so as to affect a transaction cost minimizing result. This effect is reinforced by uncertainty. If the risk of opportunism is higher, hybrids choose more advanced organizational forms that provide better safeguards for specific investments and economise on coordination costs by centralized management (VERHAEGEN and VAN HUYLENBROECK 2002). The TCE framework also helps to explain why so many diverse organizational forms are adopted by producer groups. As the review of organizational forms available for producer groups presented in Section 2.1 shows, the tighter the forms of control implemented by producer groups, the higher their set up and running costs. We may therefore expect that the choice of producer groups' specific organizational form will be a function of the level of specific investment. In addition to that, BECKMANN (2000: 121-123) argued that the number of members play a crucial role for the organizational choice. The influence of both factors, specific investments and number of members, will be discussed in the following. However, history and path dependence also matter. That is why sometimes many forms of hybrid organizations with different levels of integration coexist (MÉNARD 2005b: 369).

The most loose and most affordable form of informal group will most likely be chosen by farmers who do not undertake joint investments. Associations require higher investments of time and money, and their accumulated capital is legally protected, yet the partners have no right to withdraw either the accumulated capital or the profits. These can only be spent on the organizational activities as defined in the statutes. Unions have higher set-up costs and give their members the right to share profits, which have to be shared equally among all members. The most protective but also costly form of the limited liability company will most likely be adopted by farmers who undertake considerable investment. Similar founding costs but lower running costs are the outcome of the organizational form of cooperative. This form involves less control over the capital due to the decision-making process, where each member – regardless of his/her invested capital – has equal decision-making power (EJSMONT and MILEWSKI 2005: 60-69). The legal forms can be ranked from an informal group that has the lowest set-up costs to a limited liability company which is very costly to set up. As the invested capital increases, however, potential appropriation losses and decision-making costs of informal group are expected to rise very sharply, since the invested resources are not legally protected and the members cannot appeal to the court in case of conflict. In the limited liability company which is very costly to set up the property and decision-making rights of members are legally protected and thus both coordination costs and appropriation losses are expected to increase very slowly as the level of invested capital per member grows (Figure 1). We might expect that set up and running costs as well as investment level will be the lowest in informal groups and the highest in limited liability companies.

A second factor affecting coordination and expected appropriation costs is number of members. Regarding number of members, entry and exit costs are in particular high in limited liability companies since they have to be always approved in by a notary. Thus we might expect these groups will be more likely to have fewer members than unions or cooperatives.



**Figure 1: Coordination Costs and Expected Appropriation Losses as a Function of the Investments per Member Level in Different Forms of Producer Groups**

### 3 Sample and Data Collection

We collected data on producer groups functioning in the Wielkopolska Province. The chosen province of Wielkopolska is one of 16 provinces in Poland and is located in the western part of the country. The cross-sectional research design was selected as a research method for this investigation. This design employed the technique of social survey, which uses a structured interview with producer group leaders as the data collection strategy. Fifty functioning groups and 12 disbanded groups were subjected to the research. The 50 functioning groups associated 4,056 farmers; the 12 inactive ones associated 394 farmers. The interviews were carried out in early 2005.

The structured interview with producer group leaders was organized into a questionnaire composed of six sections which addressed: (i) general information about the group such as the group's address, legal status, number of members, and activities performed, (ii) the process of group formation, (iii) group functioning (divided into three sections: management and decision-making, production and marketing, and membership), (iv) costs and benefits of cooperation, (v) the role of the institutional environment, and (vi) leadership. These six sections comprised 132 questions in total. Two types of questions were asked: the first was related to facts such as numbers or descriptions of processes, the second to the subjective evaluation of these facts (for a full documentation of the questionnaire, see BANASZAK 2008c).

## 4 Empirical Results

### 4.1 General Information about Producer Groups

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 in 2001.

On average each disbanded group was functioning for 2.8 years. Regarding the factors which resulted in splitting up, the interviewed producer group leaders most frequently pointed to the so-called “mentality of the people” problem. It had to do with commitment, loyalty and trust in the leader and other members. Two groups did not want to change their purchasers to those appointed by the leader, and in three cases the members did not want to compensate the leader for his work or to hire a manager. Regarding other cases, two groups reported having problems with finding purchasers; one group was destroyed by a middleman who offered members a higher price if they sold their output outside the group; in one case the group was embedded in a conflict between two neighboring villages, and inhabitants of one village spread false information about the leader in order to destroy the group; and in the last case the leader pocketed the groups’ money and members did not want to continue cooperation afterwards.

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.

Twelve groups split-up and were no longer functioning when the research was carried out. 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 contributions to a common fund from which members can obtain emergency interest-free loans).

Most of groups had been initiated by one of the farmers (58%); the other 42% had been initiated by an outside organization, 24% by the extension service and 18% by outside businessmen such as processing companies, local agricultural cooperatives or middlemen. On average each group collected 6,461 EUR as start-up capital (365 EUR per member).

#### **4.2 The Choice of the Legal Form**

The most common legal forms of the groups were ‘associations’ and ‘unions’. Twenty-three groups adopted the legal form of associations, 18 of unions, 14 of limited liability companies, 5 of informal groups, and only 2 groups were functioning as cooperatives. During the process of group formation also other forms of cooperation were taken into account. Seventy-four percent of the groups considered also union as an alternative legal form, 71% considered also associations, 59% thought about limited liability companies, 45% thought about cooperatives, and 14.5% of informal groups. Regarding the reason why the current legal form was chosen we asked about the role of tax considerations, access to dept financing, size of membership, or due to the fact that other forms were too costly. The biggest fraction of the groups pointed that other forms were too costly as a major factor for the choice (43.5%). This argument was ranked as a major factor by 60% of associations, 60% of informal groups, and 50% of unions; while only 7% of limited liability companies and none cooperative referred to this argument

as a major one which influenced the choice of this form. The access to dept financing and the size of membership were not ranked as important overall, except or some LLCs (Table 2).

**Table 2: Factors affecting the choice of the legal forms according to legal forms**

Factor	Informal	Associations	Unions	LLC	Cooperatives
	Groups				
Mean asnwer (1-not a factor, 2-minor factor, 3-major factor)					
Tax considerations	2.6	1.6	1.3	1.1	1
Access to dept financing	1	1	1	1.1	1
Size of member-ship precluded other forms	1	1	1	1.1	1
Other forms were too costly	2.2	2.2	2	1.2	1

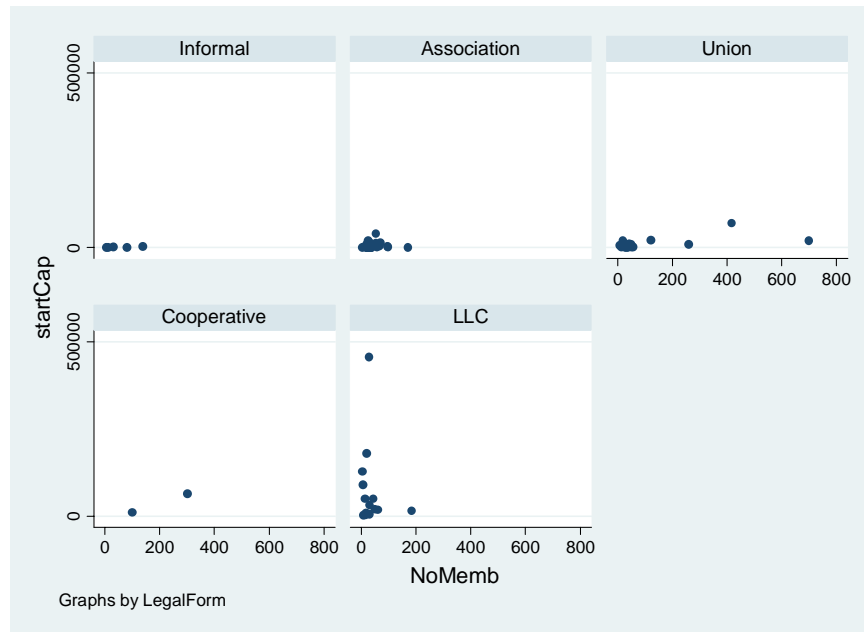
Source: Producer group survey, Wielkopolska, 2005; for survey details see BANASZAK (2008c)

Among other important factors for choosing the certain legal forms the interviewees mentioned advice of a lawyer (16%), advice of extension service (14.5%), or advice of other groups (1.6%); that the chosen form was not binding capital of the members and thus easy and safe (17.7%); that the chosen form was transparent and provided clear business rules (8.1%); that they didn't have knowledge or were not aware of other forms (8.1%); that the form was cheap (4.8%), that the form had democratic rules (4.8%), and that the form was well perceived or well experienced (3.2%).

Interestingly, majority of the groups (71%) declared that they did not choose the cooperative form due to a bad connotation this word with the old regime and also with an enterprise from which everybody was stealing. Additionally, such justifications for not choosing this form were used as: bad perception of the form either by farmers who remembered from their own or parents' experience that their were forced to joined cooperatives during socialism; bad perception of cooperatives on the market by business partners who were afraid of signing contract with a cooperative; bad example – many cooperatives collapsed after the transformation; that this form is not suitable for “modern times”; or that cooperatives have to be large and associate at least 1000-2000 members to be profitable. Further 9.7% of the groups did not choose the cooperative form because they preferred to choose less binding legal structures. Eight percent considered this form as a not sufficient for investing capital due to problems with distributing income, too high taxes, or possible mismanagement of capital due to the one member one vote principle and 6% of the interviewees argued that the cooperative law is not sufficient. One group (1.6%) argued the reason for not choosing the cooperative form was lack of cooperative traditions in the area. A small fraction of the groups (6%) could not explain or did not remember what was the reason for not choosing the cooperative form.

Thus, the results show that indeed the set-up and running costs as well as tax considerations pay an important role for the choice of less binding forms of cooperation, whereas these factors were not of importance for limited liability companies and cooperatives. Actually, membership size and access to external capital did not play any significant role at all.

In order to explore the suspected central role of specific investments and membership, Figure 3 shows the distribution of legal forms according to the level of invested capital (vertical axis) and number of members (horizontal axis).



**Figure 3: Distributions of groups according to start-up capital (in PLN) and number of members**

Source: Producer group survey, Wielkopolska, 2005; for survey details see BANASZAK (2008c)

As it can be seen from Figure 3, the informal groups show, as expected, the lowest level of investments, LLCs the highest. And the largest producer groups in terms of membership are unions and cooperatives. Multinomial logit regressions on the relationship between the dependent variable legal form and independent variables of starting-up capital and number of members show that unions are in particular chosen when number of members is high, limited liability companies are chosen when the start-up capital per person is high and cooperatives are chosen when both start-up capital and number of members is high (Table 3).

**Table 3: Multinomial logit regression results for the legal forms, start-up capital and number of members**

Legal form (association is the base line)	Independent variable	Regression results
Informal group	Number of members	.003
	Start-up capital per member	.008
Union	Number of members	-.016
	Start-up capital per member	.012
Limited liability company	Number of members	.008 (*)
	Start-up capital per member	.005
Cooperative	Number of members	.002
	Start-up capital per member	.002
Pseudo R2	Number of members	-.001
	Start-up capital per member	.009
Number of observations	Number of members	.004
	Start-up capital per member	.002 (***)
	Number of members	.011 (*)
	Start-up capital per member	.006
	Number of members	.004
	Start-up capital per member	.002 (**)
Pseudo R2		.264
Number of observations		62

† The upper line in the row indicates coefficient; the bottom one indicates standard error

\*\*\* significant at .01 level

\*\* significant at .05 level

The results clearly support the theoretical framework developed in Section 2. The level of specific investments per member and the size of membership are relevant factors for the choice of the organizational forms chosen. However, the set-up and running costs as well as tax considerations play role as well if investment levels are low. Cooperatives, indeed, combine sizable membership with considerable investments per member, but suffer from a bad reputation. It is quite likely that some producer groups chose the organizational form of associations, unions or LLC although that would have done better with a cooperative. In order to assess performance, the following section will reflect on the self-evaluation of the choices made.

**4.3 Satisfaction with the Chosen Legal Form and Implications for the Group Success**

Only nine groups (14.5%) during the time of their functioning decided to change the initially chosen legal form. In all cases the change was from less binding and less advanced form to a more binding one. In three cases the change was from an association to union, in another three cases from union to a limited liability company, in one case from a registered partnership (a form of a commercial company) to a limited liability company. In additional two cases, the changes were initiated - in one case from an association to a limited liability company and in the other from a union to a limited liability company, however, in both cases the change did not fully happen as the groups were disbanded in the process. The change was in majority of the cases motivated by switching to a form which would provide more clear business rules and encourage accumulation of the capital (6 groups) or to switch to a form which would enable obtaining the subsidies for producer groups from the government (2 groups).

Overall 62.9% of groups declared to be satisfied with the current legal form, 11.3% were partially satisfied, 22.6 were not satisfied, and for 3.2% (two groups) it was difficult to say. Accordingly with the number of groups within the given legal form, the highest percent of dissatisfied with their legal form groups were among groups which were functioning as associations. The highest satisfaction rate was among groups which were functioning as cooperatives and unions (Table 3). It is worth to note that, although cooperatives earn a bad reputation, the level of satisfaction with this organizational form is actually the highest.

**Table 4: Satisfaction with the chosen legal form**

Legal form/satisfaction	Satisfied (%)	Partially satisfied (%)	Not satisfied (%)	Difficult to say (%)	Total number of groups
Informal	60	20	20	0	5
Association	43.5	17.4	34.8	4.3	23
Union	77.8	5.6	11.1	5.6	18
Limited liability company	71.4	7.1	21.4	0	14
Cooperative	100	0	0	0	2

Source: Producer group survey, Wielkopolska, 2005; for survey details see BANASZAK (2008c)

The dissatisfaction was mainly related to disappointment from choosing a form, which did not bind members and their capital what in consequence, resulted in low commitment or that the form was not advanced enough to operate on the market or obtain the subsidies. One interviewee said:

We wanted to escape from accounting but it was impossible. Accounting is necessary for the transparency within the group. In addition, if we have had decided at the beginning to establish a company or a cooperative and pay shares, the members would have been more attached to the group. As we didn't, the members are selling products where they want, do not respect what the group agreed upon.

A few complains coming mainly from limited liability companies were related to costs of running and the bureaucracy, papers, and documents involved in the operation.

Banaszak (2008b), who analyzed determinants of success and failure of producer groups, shows that the governance form of association is more frequent among groups that failed than among those that achieved either partial or full success. Regarding the question of why the form of association was chosen, we see a large impact of the extension service. Thirty percent of groups functioning as associations chose this form due to advice of the extension service. Others chose it because it was considered a “loose” form, which did not require capital investments (17%), because it was a cheap form (13%), because it was considered to provide a sufficient level of security (8%), or because farmers were not aware that there are other forms available (8%).

There is also an interesting question of the outlying groups scattered on the graphs presented in Figure 3 and possible mismatch of their governance forms. All groups having an outlining high number of members or invested capital within their group of legal forms (that is one LLC with number of members equal 185, one LLC with invested capital close to 445,700PLN / 118,400EUR, one Union with 700 members, and one association with 171 members), were still functioning and ranked as partially successful on the scale proposed by BANASZAK (2008b). On other hand, for Limited Liability Companies, which are the most costly forms, among three with the lowest level of invested capital (below 6,000 PLN / 1,550 EUR), there was one group, which achieved a full success and two groups, which failed and were no longer functioning.

## 5 Conclusions

Polish agricultural producer groups are examples of new forms of cooperative arrangements on agricultural markets. The functions they fulfill as business enterprises but also within their local communities are similar to traditional rural cooperatives. However, due to the ideological burden they experiment with new legal forms of governance. Among the 62 organizations subjected to the research the groups were functioning most frequently as associations, unions, and limited liability companies. Only two of them were operating as cooperatives.

The results show that the choices taken at the beginning of the cooperation related to the group constitution are crucial and determine ensuing operational activities. This link, however, was in some cases neither fully recognized by the agricultural extension service nor the farmers interviewed. It was important for the success of the groups that the legal form provided sufficient safeguards and encouraged investments and commitment.

The implications of the study are in particular interesting for policy-making in other transition and developing countries where cooperatives are also negatively perceived. New governance forms of cooperative arrangements such as limited liability companies or unions are promising. They are more flexible and cheaper than the traditional form of cooperative, are free of the ideological burden, and are well perceived on the market. The legal assistance for cooperative organizations has to be provided with caution. Some level of initial member investments as well as legal framework which guaranties transparency and encourages future investments are necessary to ensure member commitment and provide safeguards for the growth of the enterprise.

## References

- BANASZAK, I. (2008a). Agricultural Producer Groups in Poland: Empirical Survey Results. *Journal of Rural Cooperation* 36(1), 73-85
- BANASZAK, I. (2008b). Determinants of Successful Cooperation in Agricultural Markets: Evidence from Producer Groups in Poland. In: Hendrikse, G., G. Cliquet, M. Tuunanen and J. Windsperger (Eds.). *Strategy and Governance of Networks*, Heidelberg: Physica-Verlag

- BANASZAK, I. (2008c). *Success and Failure of Cooperation in Agricultural Markets. Evidence from Producer Groups in Poland*. Institutional Change in Agriculture and Natural Resources, Vol. 31. Aachen: Shaker.
- BECKMANN, V. (2000). *Transaktionskosten und institutionelle Wahl in der Landwirtschaft: Zwischen Markt, Hierarchie und Kooperation*. Berlin: Edition Sigma.
- BRODZIŃSKI, M.G. (1999). Stan i perspektywy rozwojowe spółdzielczości w Polsce, *Praktyczne Vademecum Spółdzielczości*, Nr. 5, Wydawnictwo SIB
- BOGUTA, W. (2006). *Organizacja i funkcjonowanie grup producentów rolnych*. Warszawa: Krajowa Rada Spółdzielcza
- BORYS, B. and D.B. JEMISON (1989). Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organizational Combinations. *Academy of Management Journal*, 14(2): 234-249.
- CHLOUPKOVA, J., G.L.H. SVENDSEN and G.T. SVENDSEN (2003). Building and Destroying Social Capital: The Case of Cooperative Movements in Denmark and Poland. *Agricultural and Human Values* 20, 241-252.
- EJSMONT, J. and R. MILEWSKI (2005). *Podstawy prawne tworzenia i działalności grup producentów* Warszawa: Fundacja Wspomagania Wsi, available at: [http://www.witrynawiejska.org.pl/images/15208\\_grprod.pdf](http://www.witrynawiejska.org.pl/images/15208_grprod.pdf) (download date: 30.03.07).
- KATZ, J.P. and M.A. BOLAND (2002). One for All and All for One? A New Generation of Cooperatives Emerges. *Long Range Planning* 35, 73-89.
- LEMANOWICZ, M. (2005). *Organizacje i Grupy Producentów Szansą na Poprawę Konkurencyjności Polskiego Rolnictwa*. Warszawa: Wydawnictwo SGGW.
- MAŁYSZ, J. (1996). *Procesy integracyjne w agrobiznesie*. Wydawnictwo Centrum Doradztwa i Edukacji w Rolnictwie w Poznaniu, Poznań.
- MÉNARD, C. (2004). The Economics of Hybrid Organizations. *Journal of Institutional and Theoretical Economics* 160(3), 345-376.
- MÉNARD, C. (2005). A New Institutional Approach to Organization. In: Ménard, C., Shirley, M. (Eds.). *Handbook of New Institutional Economics*. Dordrecht: Springer, 281-318.
- MÉNARD, C. and P.G. KLEIN (2004). Organizational Issues in the Agrifood Sector: Toward a Comparative Approach. *American Journal of Agricultural Economics* 86(3), 750-755.
- WILLIAMSON, O. E. (1991). Comparative Economic-Organization: The Analysis of Discrete Structural Alternatives. *Administrative Science Quarterly* 36(2), 269-296.
- VERHAEGEN, I. and G. VAN HUYLENBROECK (2002). *Hybrid Governance Structures for Quality Farm Products*. Institutional Change in Agriculture and Natural Resources, Vol. 6. Aachen: Shaker.
- ZARUDZKI, R., A. PRZEPIÓRA and A. FUTYMSKI (2000). *Poradnik lidera grupy producentów rolnych*, Poznań: Agrolinia.
- ZIEGENHORN, R. (1999). *Networking the Farm. The Social Structure of Cooperation and Competition in Iowa Agriculture*. Aldershot: Asgate.

## Legislation

- Act from 7th April 1989, Prawo o stowarzyszeniach (Dz.U. z 1989, Nr. 20, poz. 104 z póź. zm.)
- Act from 15<sup>th</sup> 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)