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The importance and role of trust in agricultural marketing co-operatives[1]

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Abstract

Marketing co-operatives can strengthen countervailing power of producers and help to co-ordinate (agricultural) supply chains. According to many authors, one of the means of increasing the competitiveness of co-ops can be traced back to trust and informal connections existing between the members and the co-operative (management), as well as among the members. Using New Institutional Economics' theories and the "co-operative identity" concept as theoretical background, this review paper analyses the importance of trust, as well as the role of the co-operative principles as formal-legal securities of trust (development) in agricultural marketing co-operatives.

Keywords

co-operation, co-operative identity, principles, trust, vertical co-ordination

JEL classification

Q13, L14, L22

1. Introduction: background, motivation and methods

In theory and according to Western European (Dutch, Danish etc.) and US practical experiences (see Section 3 for details), one of the most important private institutions which can strengthen producers and help to co-ordinate (agricultural) supply chains is the marketing co-operative form. Apart from securing markets, agricultural marketing co-operatives can preserve a relatively high level of independence for their members compared to the integration by contracts offered by investment oriented (conventional) firms (such as public companies). Marketing co-operatives can also play significant roles in rural development, solving - at least partly - the very serious problem of unemployment in less developed rural areas. In addition to economic aims, there are *several non-economic benefits*, such as strengthening trust and social capital, which can also be important for the successful development of co-operatives and for society in general. The benefits offered by agricultural marketing co-operatives (see Section 3) are especially important in the case of agri-food economies in transition, especially under uncertainties dominating in the Hungarian fruit and vegetable sector (Fertő and Szabó, 2002a, 2002b; Szabó and Kiss, 2007; Szabó, 2008b, 2009).

Because of the new, more market-oriented environment (e.g. more liberal agricultural policies, opening European and world market, etc.) co-operatives execute new marketing strategies and use new management techniques. Emerging and transforming agricultural co-operatives in transitional economies, such as in Central and Eastern Europe also change their structures and forms of governance. In order to be able to grasp recent developments, a new, interdisciplinary research area (including contributions/intersections of the various fields of economics, law, marketing, financing, organisational studies and management sciences ("hard" sciences), and also some elements of philosophy, psychology, sociology etc. ("soft" disciplines) is proposed.

[1] An earlier version of the paper was presented at Conference on "Transition in Agriculture - Agricultural Economics in Transition VI" Institute of Economics, Hungarian Academy of Sciences, Budapest, 6-7 November, 2009 and a different one had been submitted to EMNet 2009: 4th International Conference on Economics and Management of Networks University of Sarajevo School of Economics and Business, September 3 to September 5 (see Szabó et al., 2009).

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Trust in co-operatives is usually considered as one of the main advantages which can help co-operative members to realise their economic and non-economic aims. According to many authors (e.g. Røkholt, 1999; Røkholt, 1999; Wilson, 2000; Borgen, 2001; Hansen et al., 2002 etc.), one of the sources of increasing the competitiveness of co-ops (for example by decreasing transaction costs) can be traced back to trust which exists between the members and the co-operative (management), as well as among the members.

In this review paper, the importance, foundations and roles of trust in agricultural marketing co-operatives are analysed. New Institutional Economics (e.g. agency and transaction cost economics) and the concept of the "co-operative identity" supply the theoretical framework. Brief empirical (case) studies supplement the theoretical considerations.

The structure of the paper is organised as follows: after introduction, the second section briefly reviews the relevant current literature regarding trust. In section three economic advantages and limitations of marketing co-operatives in coordination of agricultural producers are shown. Section four presents human factor foundations and role of trust in agricultural co-operatives including reviewing some empirical studies. The co-operative principles as formal-legal securities of trust in co-operatives are in the focus of the fifth section. Finally, we draw conclusions with implications for further research.

2. Different approaches to trust[3] with special emphasis on the agri-food economy

Trust as a subject of study of (agricultural) economics is a relatively new phenomenon in spite of the fact that it was used more in sociology, anthropology and other "soft" disciplines. However, in the last 25 years the number of publications on trust in the economics literature has grown vastly. Some of them contain one or more definitions of trust or some classifications of categories related to the term. It would need an entire publication to list them, so here only some very important references will be made.

One of the most general but most useful definitions of trust can be found in Oxford Advanced Learners' Dictionary (2005): "Trust (as noun, Sz. G.G.): trust (in sb/sth) the belief that sb/sth is good, sincere, honest, etc. and will not try to harm or trick you". (Oxford, 2005:1645)

Trust as a verb has an interesting, slightly different meaning in the same dictionary:

"1. to have confidence in sb; to believe that sb is good, sincere, honest, etc.: 2. to believe that sth is true or correct or that you can rely on it." (Oxford, 2005:1646)

The definitions above are suitable for understanding trust in everyday life, but they also give us some correct information on how farmer-members think/feel about their business partners and co-operative leaders/management if they are reliable. Farmers only decide whether they can rely on them and whether they can trust them (as they are honest people), they do not separate and categorise their feelings/beliefs regarding trust as researchers do.

Nevertheless, to be able to understand the development of trust in co-operatives and possible ways to influence it, different authors (e.g. McAllister, 1995; Wilson, 2000; Borgen, 2001; Hansen et al., 2002 etc.) classify many types of trust (e.g. cognitive and affective types etc.) as well as different levels of trust in co-operative organisations (e.g. between two members, among multiple members in general, as well as between the members and management).

[3] Trust can be viewed as part of social capital (Szabó et al., 2005; Tömpe, 2008 etc.) which is even larger context and it can be used for a more complex approach to rural and family enterprise development.

One of the most cited paper is by McAllister (1995). The author identifies two main types of trust: affective and cognitive. The former is more subjective and emotional bonded, while the latter is mainly based on rational calculations and empirical evidence.

Wilson (2000) classifies different trust hierarchies (Wilson, 2000:5), as well as giving an overview and critique of social capital and trust, including references to agribusiness economics. He also examines the changing types of trust in business relationships (trust mix) over time and states that weak trust can be changed into semi-strong trust or later even into strong trust. He also argues that trust which alters the terms of trade can reduce transaction costs and create additional (time) resource and flexibility for the management.

Regarding agricultural economics, some authors deal with the role and different levels of trust in agricultural (marketing) co-operatives (see Section 4). Only the ones dealing with definition and/or classification of trust will be mentioned in this section. Hansen et al. (2002) develop these categories further and also use a process based approach. They also distinguish two types trust: among members and also between members and the management.

Based on a large volume of literature on the topic, Sodano states "…that trust is essential to guarantee the success of cooperative relationship." (Sodano, 2002:104) Referring to the existing literature, she also emphasises "…the role of trust in facilitating vertical contractual relationship as well as horizontal coordination in the agricultural sector through grower associations and cooperatives" (Sodano, 2002:105). In searching for a "workable" definition of trust, Sodano presents two main types of trust:

1. Trust as a form of social organisation (impersonal trust), and

2. Trust as an exchange coordinating means or governance structure (interpersonal trust). Contrary to Williamson (1993), she thinks that the connection between trust and transaction cost economics is more complementary rather than alternative in approaching to organisational problems. She also examines the role of trust and vertical coordination in the food system. By reviewing the literature she states:

"1. Networks, and primarily strategic alliances seem to be the best organizational firm's response to new challenges...

2. Trust is a basic asset required to build stable and effective networks.

3. The kind of trust with the highest effectiveness ("productivity") in promoting networks is the less rational one ...

4. Supply chain management through inter-organizational network is generally expected to enhance total system efficiency and welfare" (Sodano, 2002:109).

Bakucs et al. (2008) give a theoretical background of trust in agricultural co-operatives, including references for more detailed reviews. Fairbairn (2008) in searching for the co-operative advantage and questioning whether co-operatives should have social goals as well, apart from economic ones, states: "To realize the importance of trust and social capital to co-operatives – the importance of culture – is to some extent to return to the roots of co-operation (Fairbairn, 2008:207). Török and Hanf (2009) also argues that "trust plays an important role for farmers to join a marketing cooperative in transition countries" (Török and Hanf, 2009:1). They also "…distinguished trust from other similar constructs like cooperativeness, confidence and expectation" (Török and Hanf , 2009:9).

Jones and Kalmi (2009) approach trust on a macro level with comparison of the 300 largest co-operatives that can be found in the International Cooperative Alliance (ICA) database. They conclude that “Consistent with theory we find strong support for the proposition that trust plays a causal role in accounting for differences in co-operative incidence” (Jones and Kalmi, 2009:165). Their focus is on all forms of co-operatives, although they consider agricultural co-operatives (mainly the ones in food production) as one of the most important forms of co-operative. Their “key results on the significance of trust highlight the role of interpersonal trust as a prerequisite, rather than a consequence, of co-operative incidence”. (Jones and Kalmi, 2009:190). Based on their empirical results, regarding the possibilities of solving market failures by co-operatives, they state: “Since lack of trust and market failures often may occur in the same countries, it may be that co-operatives do not grow where the potential benefits from them would be highest, such as in developing and transition countries” (Jones and Kalmi, 2009:190). They also state the limitation of their survey, namely that they included data from only the largest developing countries and disregarded numerous small co-operatives.

After briefly reviewing different theoretical approaches to trust, let us see what advantages agricultural co-operatives usually offer to their members and what their main limitations are.

3. Economic advantages and limitations of marketing co-operatives in the coordination of agricultural producers

There is a great range of different (marketing) organisations of agricultural producers in the agri-food economy of the European Union, such marketing co-operatives (van Bekkum and van Dijk, 1997; Ollila and Nilsson, 1997) and Producers’ Organisations (POs). POs are active in the fruit and vegetable sector and have to fulfil certain requirements. A significant advantage of these organisations is that the fruit and vegetable producers could afford the support of the EU solely through their POs. They exist in other legal forms as well, like joint stock companies, LTDs etc., however their main organisational form is the co-operative, mainly the marketing co-operative. The latter fact might be connected to the so called co-operative principles and their roles in guaranteeing that their own organisation will not exploit members.

Marketing co-operatives in Western Europe and the United States are specialised to process and sell the products of their members and used to be considered as the classical form of co-operation of different and independent farmers in order to protect themselves against the large commercial and/or industrial companies which are often in a monopolistic or oligopolistic position. The development of countervailing power (Galbraith, 1963) – even only regionally – through the disposal of the products collected by co-operatives and other producer-owned organisations can bring results such as strengthening market competition (e.g. ‘radiation effect’ on prices). This impact could have a positive efficiency effect on the whole chain or sector and might raise the members’ income in a socially well accepted way. Therefore establishing countervailing power by cooperatives might generate a positive welfare effect as well without any or significant state support financed by taxpayers.

In Western Europe, for example in the Netherlands and Denmark (agricultural) co-operatives are bottom-up organisations and have emerged through a volunteer base (Meulenberg, 2000). They have a so-called “double character”: toward the market: they are market oriented, but the surplus made by the co-operative goes to the farmer-members, in proportion to their product delivered/bought to/from the co-operative, after deducting the costs of the co-operative’s operation and funds for reserves.

In this study we use the basic USDA co-operative concept which reflects three basic criteria: “A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use” (Barton, 1989a:1). According to this definition three main relationships exist between the member and the marketing co-operative: the product, the capital and the democratic managing-control line. The definition can also provide the main points of the Dutch and Danish approach. The ‘economic’ co-operative principles (see later) are based on the three main connections mentioned above, as they were formulated in coherence with the elements of the co-operative’s business activity with its members. The statute or bylaw contains formal legal guarantees (e.g. principles, see later) that the co-operative will never act against the members and that members will enjoy their advantages and fulfil their duties. The bylaws (as multilateral contracts among members) also defend third parties against the co-operative, making it possible to sign contracts and obtain loans and credits in the name of the co-operative.

One can distinguish the following potential incentives for the establishment of co-operatives as a form of horizontal and/or vertical integration. Firstly, co-operatives traditionally can provide access and secure markets for the long term, therefore giving protection for independent farmers against the large commercial and/or industrial companies. They can also offer services otherwise not available or only at very high costs. Secondly, co-operatives build up countervailing power and above a certain economics of scale they act as a competitive yardstick for non-co-operative, conventional firms and the whole sector with a better influence on the market and prices. Thirdly, co-operatives in some cases can increase technological and market efficiency and carry out activities with a higher added value. Fourthly, co-operatives can decrease and internalise transaction (information) costs, with a better flow of information on consumer demand – closer proximity of consumer to farmer and with a unified decision role between two or more levels of the marketing channel. The co-operative can also lower both economic and technological uncertainties and therefore decrease transaction costs. Finally, co-operatives can increase the income of their members by lowering transaction and production costs, by reimbursement of the surplus for the members made at another level of the marketing channel (Szabó, 2002).

In order to be able to exploit economic and non-economic (see Section 4) advantages, apart from the co-operative principles, the marketing co-operatives use long, medium and short term contracts to secure the raw material for themselves and to be able to govern the whole marketing chain (Sykuta and Cook, 2001; Hendrikse and Veerman, 2001a; Szabó and Bárdos, 2006 etc.). Furthermore, the co-operative is a partial vertical integration, which means that farmers can retain a relatively high degree of independence of economic action: “Thus, it is possible to reduce transaction costs and uncertainty through the cooperative and maintain the entrepreneurial incentives through the market at the same time” (Ollila, 1994:88).

Despite the benefits mentioned above, as a very closely related issue to transaction cost economics and the (democratic) decision-making process, there are a number of potential problems (financing higher value added activities, taking risk bearing capital, incentives to invest into the co-op, heterogeneity of members) of the traditional (countervailing power) co-operative model (van Bekkum and van Dijk, 1997; Nilsson, 1998b) according to the agency theory (Cook, 1995; Nilsson, 1998a; Vitaliano, 1983). The basic source of the agency problems of complex organisations is the separation of ownership and control. In the case of co-ops, the separation of the management (agent) and the owner-members (principals) can arise different incentives, therefore managers sometimes carry out business according to their objectives at the expense of the owners (Royer, 1999).

We may conclude this section by stating that agricultural marketing co-operatives have advantages in those cases where there is a significant market failure, especially in the cases of some perishable products like fruit, vegetables and milk, and when the market is not saturated. Relational connections in the co-op (see Section 4) are crucial factors for solving the first hold-up problem., e.g. preventing post harvest hold-ups (Hendrikse and Veerman 2001b), at least at the relatively low level of product differentiation.

When the market-mechanism is working well and the different types (contracting, monitoring, enforcement) of transaction costs are not high in comparison to the internal organisation costs, then a co-operative organizational form is not as a desired governance structure and/or marketing strategy as in the previous case (Harte, 1997). Hendrikse and Veerman (2001a) also argue that in differentiated product markets with a high level of asset specificity, the marketing co-operative is probably not the best solution as a governance structure. It is not without a reason that a conversion process into investment oriented forms (e.g. public limited companies, LTDs etc.) is taking place nowadays in Europe and US which is a major challenge for co-operatives. However, informal network and trust among members can be competitive advantages for agricultural co-operatives.

4. Non-economic advantages and the role of trust in marketing co-operatives

4.1. Non-economic reasons for co-operation

In addition to economic aims, there are several non-economic reasons and considerations (Hakelius, 1996), such as strengthening trust and social capital, which can also be important for the successful development of co-operatives and for society in general.

Trust in co-operatives is usually considered as one of the main benefits which can help co-operative members to realise their economic and non-economic aims. The main reasons connected to trust and other human (soft) factors which can offer "co-operative" advantage for agricultural marketing co-operatives are as follows.

Firstly, co-operatives used to be considered as organised trust, which can determinate the success or failure of a certain co-operative: "Trust is a major co-operative advantage" (Spear, 1999).

Secondly, the social and informal network of members or potential members is also relevant as a determining factor in reducing transaction costs and in the process of establishing and the running of the activity of a co-operative. More knowledge and confidence (Røkholt, 1999) among members is vital to how co-operatives can be highly efficient in terms of the management of human relations, despite the lack the necessary capital to invest. At least in smaller communities (e.g. villages) a highly important issue is which persons are to be responsible for the management of the co-operative. Another benefit of the co-operatives is based on the closer and more informal connection among the members and between members and co-operative. Human asset specificity might become more important in the process and success of flow of information.

4.2. Role of trust in agricultural marketing co-operatives: selected empirical studies

One of the most inspiring papers on trust-generating mechanisms in co-operatives is by Borgen (2001). The author explores the topic using a dynamic approach and finds empirical supports"…that stronger the members' identification to the collective organization, the more they trust the benevolence of the cooperative management". He especially points out "…the significance of identification-based trust in case of modern, large-scale cooperatives. (Borgen, 2001:222). He also argues that an important "…reason why trust is so important in cooperative organizations is its potential capability to mitigate agency problems (Borgen, 2001:211). We can argue here that co-operative principles can play a key role in establishing and developing the coherence in the organisation through loyalty and commitment. Shared norms and values help "…to build the required social capital and degree of trust" (Borgen, 2001:214).

Hansen et al. (2002) analyse the role of trust on co-operative retention, performance and members' satisfaction by examining trust along two dimensions: cognitive and affective. They also "argue that cognitive and affective trusts refer to the process by which one determines that an individual, group or organization is trustworthy" (Hansen et al., 2002:43). Their empirical findings based on the evaluation and test of two marketing co-operatives suggest that "…trust among members and trust between members and co-op management are important predictors of group cohesion, which is a measure of the strength of the members' desires to remain in a group (co-op) and their commitment to it" (Hansen et al., 2002:1).

James and Sykuta (2005) find that "Producer owned firms[4] (POFs) have a potential advantage over investor owned firms (IOFs) in that a higher degree of trust between POFs and producers may create contracting or operating efficiencies unavailable to IOFs." However, their empirical "… results also suggest that organizational trust and members' investment incentives can be competing interests; property rights that have been shown to promote investment incentives are counter to those associated with organizational trust" (James and Sykuta, 2005:574). They also find that higher the homogeneity of member interest as they are more "equal", higher the organizational trust in producer-owned firms (James and Sykuta (2005). Ranging organisational form related to transaction costs Valentinov and Curtiss (2005) find that in cases of both agricultural producer and service co-operatives, "Trust is essential for creation and normal functioning of these organizations" (Valentinov and Curtiss, 2005:33).

Regarding transition economies, theoretically marketing co-operatives may solve many problems of transaction related problems via horizontal and/or vertical coordination. However, the number of co-operatives is still limited in transition countries like Hungary, although "…trust plays an important role for farmers to join a marketing cooperative in a transition country" (Bakucs et al., 2007, 2008). One possible explanation for this phenomenon is the lack of trust and willingness to co-operate among producers, as well as between farmers and their business partners (Bakucs et al., 2008). Analysing the most important causes to join a co-operative, Bakucs et al. find "…that the quantity, the existence of contract, flexibility and trust are the most important factors for farmers to selling their product via cooperative" (Bakucs et al., 2007:15).

Bakucs et al. (2008) investigated the impacts of trust among the members, as well as between the members and the management in the case of Hungarian Mórakert co-operative. According to the author's knowledge, this paper was the first to systematically investigate different types of trust among members of a marketing co-operative and between members and management of a co-operative in a transition country. They focused on the effect of trust on co-operative membership performance, satisfaction and their commitment to remain a part (member) of the co-operative according to the hypotheses and findings of Hansen et al. (2002), which analyse the role of trust in cooperative performance.

[4] Like agricultural marketing co-operatives as premier examples.

Mórakert Purchasing and Service Co-operative (established in 1995) was the first officially recognised PO in Hungary and was certified in 2002. The co-operative extended its membership and circle of suppliers during the period 1995-2007 and tried to involve more segments of the fruit and vegetable chain. The increase in both membership and the turnover of the co-operative demonstrate that the co-op was operating efficiently during that period. The total net revenue of Mórakert co-op reached HUF 8 billion in 2007, a very significant result for the sector. However, 2008 and 2009 were not as successful as the previous ones, for example the turnover of the co-op in the first half of 2009 was about 40% of the similar period in 2008. They expected a turnover of about HUF 4 billion in 2009, which is only half of the result in 2007. The major problems are connected to liquidity: members do not trade their products to the co-operative, instead they try to sell them on spot (generally on the grey and black markets), getting cash immediately. While that way of short-term thinking and thus bypassing the co-operative route destroys the marketing channels of the co-op; on the other hand the behaviour of members can be understood: they have to finance their family life and also their own farming. The Co-op had 776 owner-members in July 2009.

The results by Bakucs et al. (2008) suggest that trust among co-operative members and trust between member and management have positive effects on group cohesion. They also find, as did Hansen et al. (2002), that affective trust has a greater impact on group cohesion than cognitive trust on both levels. In addition, trust among members has a greater impact on group cohesion and members' satisfaction than trust between members and the management (Bakucs et al., 2007).

The success story (in terms of increasing turnover and membership from 1995-2007) of the above mentioned Mórakert Co-operative (Szabó, 2009) was due to the friendly and supportive approach of the local authority, the various sources of capital derived from funds for development, and above all, the trust and loyalty within the co-operative. However, as the co-operative got bigger and because of the liquidity problems arising from the economic and financial crisis from 2008, loyalty and trust have become a very sensitive issue, since there were huge delays in payments to members for the their products (HUF 2 billion) due to a number of micro- and macro-level problems. The president and the new managing director had to personally talk with all of the members one by one in order to ensure that they voted for the necessary changes before the assembly of delegates in March 2009 (Szabó, 2009). As the president of the Mórakert Co-op said: "The retrieval of trust (of the members, author) is a matter of money" (Hódi, 2009). The main important weapons in the hands of the co-operative manager and president to gain back the trust of the members are secure markets and prompt payments for the products of the farmers.

Financial solutions of the above liquidity problem in July 2009 came from four sources: a loan from the local authority (municipality), members' contributions in different ways, state intervention through DATÉSZ Zrt. (closed joint stock company) and remodelling (restructuring) the co-operative into a "for-profit" organisation (to get reserves and savings for financing their development) including a cost saving plan and changes in the management. However, in a following stage of co-operative development the co-operative will probably be faced with a number of liquidity problems, decreasing turnover and issues usually emerging in the case of traditional (countervailing power) co-operative model which probably will influence and change marketing, financial and possibly the organisational strategies of the co-operative.

Dudás (2009), analysing the co-operative's role in coordinating fruit and vegetable producers, deals with trust issues as well. His survey was based on a questionnaire used by Bakucs et al. (2007, 2008). Dudás summarises his empirical results regarding the impact of trust on co-operative members' group cohesion, performance and satisfaction (emphasis in original) as follows: "Producers' low willingness to cooperate is possibly due to lack of trust. In a questionnaire survey I justified that at ZÖLD-TERMÉK Cooperative trust has a decisive impact in the development of group cohesion. More precisely, affective trust has a greater impact on group cohesion than cognitive trust. I found that group cohesion has a positive impact on members' performance and satisfaction**.** Furthermore, it is again affective trust that has a greater impact on members' performance and satisfaction, not cognitive trust. The greater effect of affective trust implies that the emotional foundations of an association and cooperation are stronger than tangible economic results. A PO management may improve the cohesion within the cooperative by increasing its own trustworthiness and strengthening personal contacts (both among members and between members and management). This way its members would be satisfied and stay cooperative members" Dudás (2009:21). It would be very interesting to see further studies along the same guidelines (e.g. questionnaire) to be able to make comparisons among (at least) the Hungarian POs.

The crucial issue for the future of agricultural co-operatives is the loyalty of farmers to their co-op and the leaders of the co-operative, especially under uncertainties dominating in transition agriculture like the Hungarian fruit and vegetable sector (Szabó, 2008b). There are a number of reasons why members still have loyalty to their co-op and trust on different levels is one of the most important. The "organized trust" connected to relational connections in the co-op are crucial factors to solve the first hold-up problem, e.g. prevent post harvest hold-ups (Hendrikse and Veerman 2001b), at least at the relatively low level of product differentiation.

Forgács (2006) examined two Hungarian agricultural co-operatives as case studies based on interviews. "Field work was carried out in a traditional cooperative, BÉKE, and in a newly-established Purchasing and Marketing Cooperative, HAJDÚ GAZDÁK (PMCHG)" (Forgács, 2006:23). The most important findings of the study regarding trust and opportunism are the following: "Members in both co-ops regarded trust and reciprocity as important elements of social capital. However, their approach to the issue reflects different standpoints. Trust towards formal institutions differed in the two co-ops. Members of PMCHG had low levels of trust in current government officials and EU institutions. In contrast, BÉKE members had more trust in national government and their trust in EU institutions was also above average. However, where trust levels in state institutions were low, to reduce transaction costs people looked for informal institutions to solve their problems" (Forgács, 2006:32).

It is also very interesting that the study applies a macro-level approach in connection to a micro-level one. It is remarkable how farmers trust in their own organisation in order to solve their (marketing) problems (such as lowering transaction costs) instead of relying on governmental and/or EU institutions. Forgács (2006) also states: "In the two cooperatives the role of leadership differed somewhat. In the BÉKE" Co-op, the management's goal was to avoid breaking up the cooperative community, while at PMCHG the key players' central responsibility was to persuade individual farmers to begin and solidify cooperation in order to build up a new cooperative community. In both co-ops the trust placed in management indicated that leadership plays an important role in cooperatives" (Forgács, 2006:35).

Using literature survey, Török and Hanf (2009) also examine briefly some Hungarian co-operatives examples and they conclude: "…the main expectations are to secure the market and decrease transaction costs. In addition, these cooperatives could be established, because of the significant confidence level of members. Their confidence based on their experience with other members and/or the leader, on the clear rules, and on knowledge about members' mutual interest. We can also observe that trust in the leader of the cooperatives can be integrated into the confidence and cooperativeness of the members. So we can see that due to verticalisation as well as due to the huge number of small producers, the idea of forming horizontal co operations (i.e. cooperatives) can and must be taken into the context of transition countries" (Török and Hanf, 2009:9).

The above mentioned empirical results cannot be generalised since they are only case studies and also since the survey has the number of observations of 136 in case of Mórakert Co-op (n = 136) and 57 (n = 57) in case of ZÖLD-TERMÉK Cooperative. All cases have geographical and commodity limitations as well. Thus, further research is needed to clarify the role of trust in the success or failure of marketing co-operatives in Hungary and other transition countries.

5. The so called co-operative principles and their connections with trust

The concept of the "co-operative identity"[5] (Szabó, 1997, 2006a, 2006b, 2008a) is proposed to serve as a general theoretical background for the economic evaluation of the role of trust and its relations to co-operative principles in (agricultural) co-operation. Although co-operative identity has involved some other aspects beside the principles, namely values (Böök, 2002) definition(s), aims (purposes), functions, etc. of the co-operative and co-operation, for most co-operators the so-called co-operative principles are the cornerstones of the evaluation of the validity of a co-operative. For many people co-operative principles can prove that a co-operative is genuine one or not and they can help to develop a unique organisational character of the organisation (Craig and Saxena, 1984; Davis, 1995).

It is necessary to distinguish the principles from the policies and practices of co-operatives. According to Barton (1989b: p.23) the following terms can be distinguished:

" A principle is a governing law of conduct, a general or fundamental truth, a comprehensive or fundamental law".

" A policy is a wise or expedient rule of conduct or management. It is not a universal, unchanging truth but a highly recommended course of action, given the situation."

" A practice is a usual method, customary habit, action, or convention; a frequent or usual action. Substantial flexibility exists ... respecting the cooperative definition, principles and policies."

Barton gives a wider explanation of the terms outlined above, but these shorter definitions are appropriate for our purpose. Amongst other points, Barton also states in his (quoted) paper that the co-operative principles with the definition of a co-operative "...preserve the essential objectives and uniqueness of the cooperative form of business" (Barton, 1989b: p.23). From this observation it is clear that the co-operative principles are essential to grasp the co-operative identity**,** which opinion is shared by other authors (Davis, 1995; MacPherson, 1994; Røkholt,1999 etc.) as well. According to Craig and Saxena (1984): "The strength of the principles has been that they are stated in a simple, straightforward and easily understood way. This is an important characteristic. Other characteristics include internal consistency and logic applicability to organizations irrespective of the external environment in which function; and long term relevance" (Craig and Saxena, 1984: vi).

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[5] The idea of examining co-operative aims, principles and the needs of co-operatives according to each sector in agriculture was mentioned to the author by Zwanenberg (1995). This was in contrast to those who had sought to identify a general set of co-operative principles (ICA, 1995). This was a starting point for the author to develop a new concept of "co-operative identity". More detailed analyses of the concept and the main relations between various elements of the "co-operative identity" can be found in Szabó (1997, 2006a, 2006b, 2008a).

According to Barton (1989b) there are four distinctive classes of principles which more or less overlap with the ICA principles (see later) and also with each other. These main groups are the Rochdale, the Traditional, the Proportional and the Contemporary class of co-operative principles. However, our main aim is not to examine the whole scale of the optional sets of co-operative principles; therefore, details of these four classes can be found in the book cited above (Barton, 1989b:26-30).

The elements of the Proportionality class of principles of co-operatives are in accordance with Barton (1989b: p.27):

"1. Voting is by members in proportion to patronage

2. Equity is provided by patrons in proportion to patronage

3. Net income is distributed to patrons as patronage refunds on a cost basis".

The Contemporary set is almost the same, but differs from the previous one in the fact that the proportionality basis is not stressed in the first and is absent from the second point.

Reflecting the recent changes in economic and social life all over the world, the ICA had established a working group (Böök, 1989, 1992) to review the current basic values and principles of co-operation. The new statement containing the final list of the new principles was made in Manchester in September 1995 (ICA, 1995). The seven principles, which have been more or less accepted and implemented in most countries, are the following:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for Community

The organisational form and decision-making (control) mechanism of the co-operative and the so-called co-operative principles (Barton, 1989b; MacPherson, 1994; ICA, 1995; Hakelius, 1996; Røkholt, 1999) can be taken into consideration as formal-legal securities (guarantees) of trust between the member and co-operative. Hence the so-called hold-up problem (Royer, 1999; Hendrikse and Veerman, 2001b; Karantininis and Nielsen, 2004) is usually not as significant as in any other contractual relationship between a farmer and Investment Oriented Firms (IOF).

The hold-up problem, probably the most known example for ex post problem/cost, relevant in agriculture, "… arises when one party in a contractual relationship seeks to exploit the other party's vulnerability due to relationship-specific assets" (Royer 1999:49). The hold-up problem is significant in the dairy and fruit-vegetable sectors, explaining the existence of the high share of co-operatives in these industries (Staatz, 1984; van Bekkum and van Dijk, 1997; Kyriakopoulos, 2000). The members of a marketing co-operative are not likely to fear that after investing into relationship-specific assets, the other party (e.g. the processor or wholesaler) will change his/her mind and force them to accept lower prices for their products or otherwise terminate their contractual relationship.

It is further argued in the present paper that information and some parts of the enforcement costs are lower in co-operatives due to the special relationships and bonds among members.

As mentioned earlier, beyond the economic advantages of co-operatives there exist some non-economic ones connected to member relations and co-operative principles. Very important advantages of the co-operatives are based on the closer and more informal connection among the members and between members and the co-operative. Røkholt (1999, 2000) distinguishes four types of member loyalty: power based, habit based, tradition based and solidarity based. These can be the basis for the co-operative to be able to use the co-operative rationale as comparative advantage and able to develop strategies utilising strengths instead of eliminating weaknesses of the co-operative form as suggested by economic theories, like transaction cost based considerations. All in all, the network of personal relations among the members represented and secured by co-operative principles are very important connections from the point of the co-operative rationale (Røkholt, 1999).

However, one has to keep in mind that co-operative principles along with the democratic decision making process in co-operatives were/are sometimes obstacles to flexible business activity, especially in gaining more risk-bearing capital for more activities with higher added value. Moreover, the one member – one vote principle which was/is considered as the cornerstone of proving whether a co-op is genuine or not is not right from an economic point of view in cases of some new generation types marketing type of co-operatives. For example in the case of a dairy co-op the member supplying much more milk to the co-operative processor takes a much higher risk than another one delivering less milk. The activity of the co-op affects more deeply the farming and income of the "bigger one". Additionally, the limited if any interest paid on the capital invested into the co-operative (e.g. co-operative shares) weakened and limited the financial positions and possibilities of carrying out new (marketing) strategies of the co-ops and their members.

A multiple voting system might be related for example to the proportionality principle. Clear and rational limitation of votes per member can help co-operatives to able to keep members with higher patronage and also to be able to gain more capital from members. It is understandable: if somebody delivers ten or more times as much raw material (e.g. milk) to the co-operative than others then she or he would like to have more influence on the governance of the co-operative.

Generally speaking, if co-operative principles as safeguards have less power in practice (e.g. members even do not know them) then probably less trust will be generated in the co-operative and it will lead to economic inefficiency (occasionally to bankruptcy) or conversion to other, more secure and solid organisational forms, like LTDs and public companies. In transition countries the situation is even more complicated: co-operative principles (although in most of the cases stated in co-operative legislation) are still "top secrets" even for the members themselves.

6. Conclusions

A higher degree of co-operation among producers is important from the point of better coordination of the whole chain and it can enhance (consumer) welfare as well. Despite of the many theoretical economic and non-economic advantages offered by co-operatives, recent empirical evidence is sparse in this regard, and various studies reported controversial experiments on the viability of the co-operatives in modern agriculture. The bottom line is that until the product/service line is more important to the capital line in a co-operative and principles can secure this relationship, then an organisation acts as a co-operative despite the fact of its actual legal form.

Trust in co-operatives is usually considered as one of the main benefits which can help co-operative members to realise their economic (e.g. decreasing transaction costs) and non-economic aims. The crucial issue for the future and main advantage of agricultural co-operatives can be the loyalty of farmers to their co-op and to the leaders of the co-operative, especially under uncertainties dominating in the transition agriculture. The "organised trust" connected to relational connections in the co-op are crucial factors to solve the (first) hold-up problem.

Co-operative principles can be seen as obstacles to the efficient operation of an organisation (because of more complicated and slower decision making process in the organisation) or can be taken into consideration as formal-legal securities (guarantees) of trust between the members and co-operative (management), as well as among the members. Co-operatives with a strong and flexible identity can use principles and trust (generated and preserved by those principles) for their advantages thus increase their economic viability.

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In the sense of the considerations proposed, this paper can be regarded as a preliminary study for further research. More empirical analyses are needed on the subject of trust-generating processes as well as on the development of trust in cases of (agricultural) co-operatives. The author would be grateful for any comments and/or suggestions, including ones for future collaboration in any issues addressed in this study!

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