

CRITICAL FACTORS FOR THE SUCCESS OF THE AGRICULTURAL COOPERATIVES

Radu-Adrian MORARU¹, Dan BODESCU¹, Alexandru-Dragoș ROBU¹

e-mail: radu.moraru@iuls.ro

Abstract

Agricultural cooperatives face numerous challenges and changes, their existence being influenced by their ability to adapt to resource scarcity, market instability and the need for continuous development. Based on the review of the specialized literature, the present paper aims to highlight the main driving forces behind the performance of cooperatives in agriculture. The findings indicate that the success of the agricultural cooperative are dependent not only on the economic environment, but also on the social context in which the cooperative operates. Two main categories of success factors were identified: external factors, such as government policy, the marketing system, external assistance, the legal framework; and internal factors, related to managerial skills, governance and the motivation for establishing the cooperative. The degrees of importance of these critical success factors are determined by the level of development of the cooperative system.

Key words: cooperative, agriculture, success factors, development

All over the world, the establishment of cooperatives in the agricultural sector has been caused by the specific needs of small farmers and by the strategies to reduce rural poverty, improving the social and economic development of local communities (Gundani S.R., *et al*, 2018). The various benefits generated by cooperatives (access to markets, increased bargaining power, etc.) have convinced agricultural producers that they can play a significant role in ensuring the survival and sustainability of the farm (Giagnocavo C. *et al*, 2018). But only a part of them proved to be viable and sustainable, many cooperatives having survival difficulties from the early stages (Cook M.L., Burress M.J., 2009). To be sustainable, the cooperative must have long-term economic success and be able to compete with the private sector or with other cooperatives (Rankin M.K., Russell I.W., 2012). In countries where the cooperative sector has not reached maturity, such as developing countries, cooperatives face numerous obstacles (inadequate internal governance, underdeveloped market environment, lack of a favorable legal framework or adequate regulations, etc.) endangering their existence and functioning (Shirima V., 2022).

MATERIAL AND METHOD

The present paper explores the international literature in order to be identified the key success

factors of agricultural cooperatives, emphasizing the importance of the way in which the internal and external factors act on their performance. The application of the specialized literature review method allowed the evaluation of the international experience on the topic in question, various studies conducted in different geographical areas and for different types of agricultural cooperatives being analyzed. The relevant driving forces for the competitiveness of cooperatives have been grouped into main categories according to their type and mode of action. The approach is based on the hypothesis that due to their combined interventions these factors have the potential to promote the viability of agricultural cooperatives.

RESULTS AND DISCUSSIONS

The success or failure of agricultural cooperatives depends on a number of critical factors, their action being largely influenced by the level of development of the cooperative organization (Grashuis J., 2019). These factors can be financial as well as organizational and operational (Sexton R., Iskow J., 1988). According to de Veen-Dirks P. and Wijn M. (2002), the critical success factors are those that ensure the competitive performance and the achievement of the organization's objectives.

Different scholars have conducted studies in various areas of the globe to assess the elements that have the potential to contribute to the successful development of farmer cooperatives,

¹ “Ion Ionescu de la Brad” University of Life Sciences Iași

identifying a wide range of factors that include: technical and external financial assistance (Garnevska E. *et al*, 2011), training on members and leaders (Fabre C. *et al*, 2020), members' involvement and commitment (Trechter D.D. *et al*, 2002; Osterberg P., Nilsson J., 2009), the cooperative's business volume (Banaszak I., 2008; Rousslièr D., Joly I., 2011) and structure (Corcoran H., Wilson D., 2010), the size and heterogeneity of the group of associates (Valentinov V.L., 2004; Cook M.L., 2018; Banaszak I., 2008), collaboration with other businesses and institutions (Alfoqahaa S., 2018), the type and quality of the product which is the object of the cooperative's activity (Markelova H. *et al*, 2009; Alfoqahaa S., 2018), organizational leadership (Emmanul O., Nhlanhla N., 2014; Alfoqahaa S., 2018), legal framework in which the cooperative operates (Garnevska E. *et al*, 2011), managerial skills (Fabre C. *et al*, 2020), transparency and trust in the relations between members and leaders (Banaszak I., 2008; Emmanul O., Nhlanhla N., 2014), marketing strategies (Trechter D.D. *et al*, 2002; Giagnocavo C. *et al*, 2018), the selection process of members and the acceptance of business with non-members, etc. (Banaszak I., 2008).

Shirima V. (2022) considered that the key factors that would determine the success of a

cooperative can be classified into three categories: commitment, strategy and governance (*table 1*).

Table 1
Determinants of agricultural cooperatives' success
(Shirima V., 2022)

Commitment	Members control their co-operative Members use their skills to for co-operatives benefits Members are responsible for promoting their cooperative
Governance	Leadership and government support Develop measures throughout all levels in order to get feedback Create good governance structure Transparency
Strategy	Self-evaluation/assessment Ability to live the vision of the co-operative Ability to be a strategy focused organisation Objective development

Within each main category there are sub-factors that are either internal or operate from outside the cooperative (*figure 1*). The cooperative's performance depends on its ability to keep endogenous factors under control and to adapt to changes in the external environment (Grashuis J., 2018).

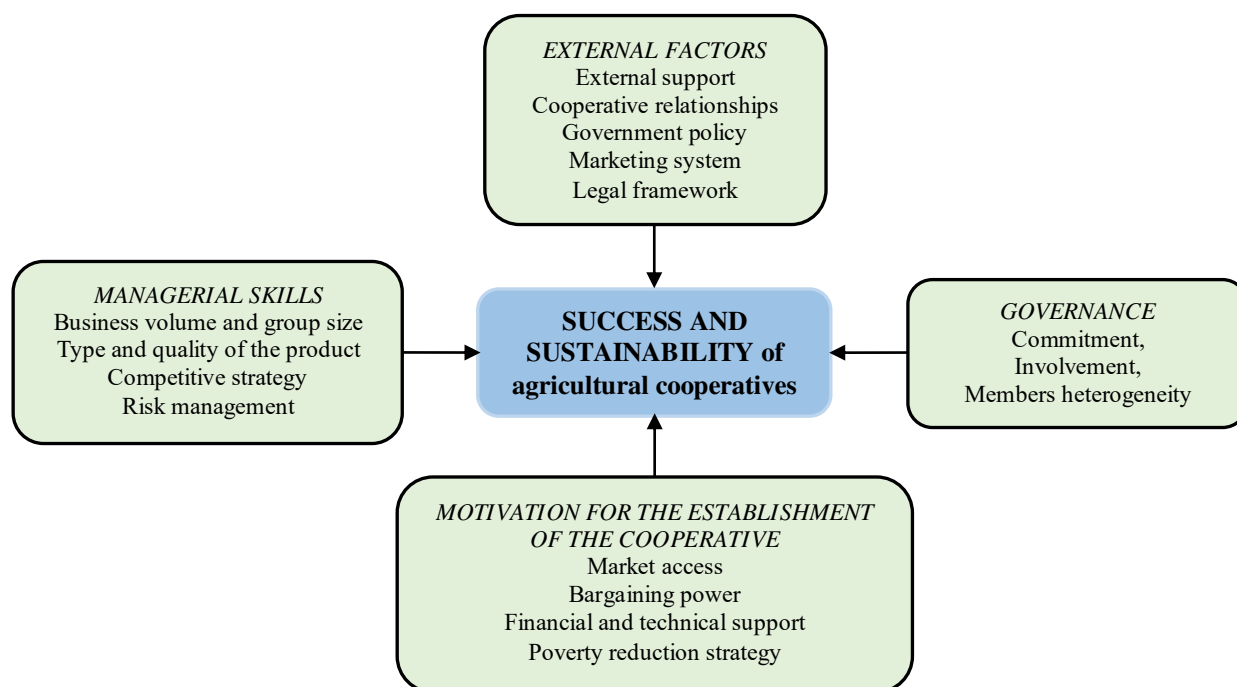


Figure 1 The main internal and external factors affecting agricultural cooperatives' success

Internal factors. Governance, managerial skills and motivation for establishing and maintaining a cooperative are the main endogenous factors that affect its success or failure.

Cooperative governance. Cooperatives are commercial enterprises owned and controlled by

their members and have their own governance structure, being different from corporate firms or those owned by private investors. Cooperative governance refers to the decision-making process and the ability to implement them. Decisions must represent the interests of cooperating members

group, counteracting the tendency to divide these interests (Chibanda M. *et al*, 2009). The main difficulty in managing the cooperative organization consists in harmonizing the requirements of the agricultural market with the members' interests. Cooperative boards must ensure, on the one hand, that the organization acts in accordance with the interests of its members, and, on the other hand, that it acts to improve the cooperative's performance through the adopted strategies and decisions (Cornforth C., 2004). The focus on short-term benefits and the undemocratic way of governing the cooperative generates members' distrust in the management team and discourages their investment in the cooperative. The intensity of the members' involvement and commitment in the cooperative's governance is closely related to its success (Osterberg P., Nilsson J., 2009).

- *Members' involvement* in cooperative governance is what sets the cooperative apart from other business organizations. This refers to various activities: attending meetings, working on committees, involvement in recruiting new members, etc. Farmers' dissatisfaction with the management of their organization is expressed by a decrease in loyalty to the cooperative (Emmanul O., Nhlanhla N., 2014). Active involvement in the decision-making process stimulates the cooperative members to be more devoted to the implementation actions compared to the case of imposed decisions (Osterberg P., Nilsson J., 2009).

- *Members' commitment* lies in their preference for what the cooperative offers they belong to and not by alternative organizations. Survival of the cooperative depends on their decisions to increase or decrease the volume of business with it, even going as far as withdrawing from the cooperative (Trechter D.D. *et al*, 2002). Several factors contribute to the stimulation of members' commitment, such as: benefits received from the cooperative (Osterberg P., Nilsson J., 2009), participation to cooperative governance, management's ability to translate members' needs into decisions (Fulton M., Giannakas K., 2001).

- *Members' heterogeneity* may affect the decision-making process, an excessive diversity of members' interests making it difficult for management to decide for the benefit of all (Cook M.L., Burrell M.J., 2009; Valentinov V.L., 2004). This could lead to dissatisfaction and passivity among those members who feel that their needs are being neglected (Osterberg P., Nilsson J., 2009), fact that determines the decrease in the intensity of cooperation relations (Seabright P., 1997).

The cooperative management includes both the employed management staff and the board of directors and plays an important role in promoting

operating policies and setting the direction of the cooperative (Fulton M., 2001), as well as in motivating members to act towards a common goal (Banaszak I., Beckmann V., 2006). In order for the cooperative to be successful, it is necessary for people in leadership roles to have business qualifications and expertise and to possess technical-economic and interpersonal skills (such as, e.g.: communication, organization, allocation of resources, etc.) (Nyoro J., Ngugi I., 2007).

The management process involves encouraging members to make the most effective decisions for (Alfoqahaa S., 2018): improving cooperation operations and alleviating external tensions or within the cooperative; obtaining consensus within the group of members; ensuring the respect of the group's decisions and their implementation.

The adoption of inappropriate decisions and policies for the members of the cooperative due to faulty management, could have negative consequences, even reaching organizational failure (Fulton M., 2001). The performance of cooperatives is affected by the lack of responsibility and transparency, uninspired financial transactions, inadequate management of resources, etc., the result being the reduction of the members' commitment and the weakening of their trust in the cooperative (Emmanul O., Nhlanhla N., 2014). A competent management must be able to ensure the transfer of information between the members and the cooperative, to mitigate the conflicts between the interests of the members and the requirements of the agricultural market and to stimulate their involvement in the cooperative's activities (Trechter D.D. *et al*, 2002). Having the necessary skills to choose the most suitable strategies regarding business volume, type of product, level of product quality and competition on the agricultural market, the management will ensure the loyalty of its members and contribute to the viability of the cooperative (Garnevskaya E. *et al*, 2011).

- *Business volume and group size.* To remain economically viable, cooperatives must manage large volumes of goods, thus reducing costs and achieving economies of scale. The level of the transaction cost per product unit can also be reduced by increasing the frequency of the transaction, which could be achieved by increasing the number of members (Banaszak I., 2008). A small number of members prevents cooperatives from collecting sufficient quantities of products to meet buyers' demands at adequate costs. These small quantities do not allow cooperatives to influence the market by controlling supply, leading to modest profits for farmers (Sexton R., Iskow J.,

1988). Cooperatives with a larger number of members have a higher level of social capital and more relations with the external environment achieving a better economic performance (Grashuis J., 2019). On the other hand, these cooperatives are more exposed to the increase in conflicts and the decrease of group cohesion, showing difficulties in collective actions (Valentinov V.L., 2004).

- *The type and quality of the product* that represents the cooperative object of activity has a strong impact on the business success. Selecting the type of product and the level of quality required in the market represents an essential managerial skill (Alfoqahaa S., 2018). High-value products are usually more perishable and offer higher returns, but involve more equipment and more technological and marketing know-how. On the other hand, cooperatives involved in the production of primary products (lower value) have the advantage of buying inputs in bulk and being able to store them for a longer period (Markelova H., et al, 2009).

- *The competitive strategies* of the agricultural cooperatives refer to their ability to orient themselves towards the market and to improve their profitability. Based on market information about competition and target customers, cooperatives can adapt to political, technological and economic changes that influence the demand for their products (Kyriakopoulos et al, 2004). By vertical or horizontal integration, cooperatives have more chances of success, because they achieve a reduction in transaction costs and an improvement in profitability (Giagnocavo C. et al, 2018), strengthening their market position vis-à-vis customers and suppliers (Treichler D.D. et al, 2002). At the same time, the success and sustainability of cooperatives are supported by their reputation and commercial relations established with other companies, as well as by alliances with other cooperatives (Dyer J., Singh H., 1998).

- *Risk management.* Cooperative organizations must resort to certain strategies to avoid or mitigate losses related to the risks associated with agricultural production: price volatility, drought, diseases and pests, floods, etc. (Shirima V., 2022). Depending on the costs and the effort of implementing the strategy, cooperatives can choose one or more options: attracting more members, more diverse and more geographically dispersed; diversification of the product line, in order to avoid that the income is ensured by a single gross product; participation in joint ventures and strategic alliances (Zeuli K.A., 1999).

The motivation and purpose of establishing the cooperative influences farmers' loyalty and commitment to the cooperative.

- *Market access.* Farmers show different motivations for acquiring cooperative membership: external financial support, easy access to inputs and overcoming marketing difficulties due to discriminatory treatment by intermediaries or market oligopoly or monopoly (Onumah G. et al, 2007). Due to the association in cooperatives, small agricultural producers gain easier access to market information, credits and technical advice, and, based on economies of scale, they manage to cope with fluctuating markets, excessive competition and high transaction costs (Clegg J., 2006).

- *The bargaining power* of farmers increases within the cooperative, both with input suppliers and with buyers of agricultural products sold through the cooperative. Thus, they obtain a competitive advantage and increased opportunities for market participation (Onumah G. et al, 2007), cooperative membership becoming very attractive due to economies of scale that ensure cooperatives better prices (Alfoqahaa S., 2018).

- *Poverty reduction strategy.* The organization of agricultural cooperatives does not only pursue economic but also social goals. They encourage local participation and inclusion, acting as self-help organizations (Christy R., 1987), addressing the problem of disadvantaged people in a liberalized market economy (Birchall J., 2004). In developing countries, the formation of cooperatives is a government strategy for poverty reduction and rural development, which can give small farmers the chance to increase their competitiveness and to have access to supply chains (Solomon P., 2023).

External factors. The prosperity and longevity of agricultural cooperatives is linked to their ability to face changes in government policy and consumer needs and preferences, as well as challenges of competition or those determined by economic fluctuations (Giagnocavo C. et al, 2018). External factors affect the competitiveness of cooperatives to a greater or lesser extent, depending on the level of development of the cooperative system of which they are a part (Grashuis J., 2018).

- *External assistance* has, in most cases, a positive effect on the sustainability and success of agricultural cooperatives, but it can also have a negative role. Agricultural cooperatives in developing countries are more exposed to the action of various external factors, needing government support, especially in the initial phase, to obtain various economic advantages (e.g.

facilitating access to markets) (Shirima V. (2022). However, the support of cooperatives by the state (political and legislative), as well as their external financing, could create a certain dependence and a certain control over the cooperative management, influencing the commitment of the members and the competitiveness of the organization (Rankin M., Russell I., 2005) In addition, external support could attract as members some opportunistic individuals who only aim to gain access to government subsidies and other facilities provided by the state, without any interest in the success of the cooperative activity. (Chibanda M. *et al*, 2009).

- *Cooperative relationships.* The successful development of the agricultural cooperative depends on the degree of cooperation not only between its members but also with various social partners (financial supporters, other cooperatives or institutions) (Ibourk A., El Aynaoui K., 2023).

- *Governmental policies.* Prioritizing consumer needs, food security and economic growth, governments may promote some policies that could be harmful to agricultural cooperatives. Lack of adequate information could make governments apply some inappropriate price policies (ceilings, high import and export taxes, control of marketing margins, etc.). This would lead to the cancellation of the benefit of competition, being rewarded inefficient operations (Timmer C, 1989), a fact that would negatively affect agricultural producers (Dorward A., *et al*, 2008).

- *Legal framework.* For the success of their development, farmers' cooperatives need an appropriate regulatory framework that punishes corruption and non-compliance with contracts (Nyoro J., Ngugi I., 2007). Otherwise, cooperatives will be vulnerable to manipulation, opportunistic behavior and fraudulent business, generating a high level of mistrust among those involved (Fafchamps M., 1996).

- *The marketing system and infrastructure* influence the functioning of agricultural cooperatives, having a high impact on farmers' commitment and, therefore, on the performance of cooperatives (Corcoran H., Wilson D., 2010). The market environment must be conducive to the involvement and competitiveness of all participants. Cooperatives have a hard time adapting to a non-transparent agricultural market, characterized by financial instability, price and income volatility due to reduced government involvement, increased competition, etc. (Sexton R., 1986. In case of market failure, agricultural cooperatives are more likely to succeed because of reduced competition (Hansmann H., 1999). However, the extent of market failure can also be

an obstacle to cooperative success (Dorward, *et al*, 2008).

CONCLUSIONS

The critical success factors are those that ensure the competitive performance and the achievement of the organization's objectives. For agricultural cooperatives, achieving business success is a multifaceted process, which includes financial, organizational and operational aspects. Agricultural cooperative's performance and sustainability are linked to managerial skills, governance, motivation for establishing a cooperative (as endogenous determinans) and various exogenous factors, such as: external support, cooperative relationships, government policy, marketing system and legal framework. These determinants are interconnected and, if they act in a favorable manner, they can be the support for agricultural cooperatives' long-term success. The degrees of importance of these critical success factors are determined by the cooperatives' age and the level of development of the cooperative system.

REFERENCES

- Alfoqahaa S., 2018** - *Critical success factors of small and medium-sized enterprises in Palestine*, Journal of Research in Marketing and Entrepreneurship, 20(2): 170–188.
- Banaszak I., Beckmann V., 2006** - *The role of leadership in the process of establishing and sustaining cooperation*, IDARI Working paper, Humboldt University Berlin.
- Banaszak I., 2008** - *Determinants of successful cooperation in agricultural markets: evidence from producer groups in Poland*. Strategy and Governance of Networks, Heidelberg: Physica-Verlag.
- Birchall J., 2004** - *Cooperatives and the Millennium Development Goals*, Publisher: International Labour Organisation, Geneva.
- Chibanda M., Ortmann G., Lyne M., 2009** - *Institutional and governance factors influencing the performance of selected smallholder agricultural cooperatives in KwaZulu-Natal*. Agrekon, 48(3): 293-315.
- Christy R., 1987** - *The role of farmer cooperatives in a changing agricultural economy*. Southern Journal of Agricultural Economics, 19(1): 1-12.
- Clegg J., 2006** - *Rural cooperatives in China: policy and practice*, Journal of Small Business and Enterprise Development, 13(2): 219-234.
- Corcoran H., Wilson D., 2010** - *The worker cooperative movements in Italy, Mondragon and France: Context, success factors and lessons*, Canadian Worker Cooperative Federation Calgary, Alberta.
- Cornforth C., 2004** - *The governance of cooperatives and mutual associations: a paradox perspective*, Annals of Public and Cooperative Economics, 75(1): 11-32.

- Cook M.L., Burress M.J., 2009** - *A Cooperative Life Cycle Framework*, Graduate Institute of Cooperative Leadership (GICL), University of Missouri, USA.
- Cook M.L., 2018** - *A Life Cycle Explanation of Cooperative Longevity*, Sustainability, 10: 1586.
- Dorward A., Kydd J., Poulton C., 2008** - *Traditional Domestic Markets and Marketing Systems for Agricultural Products*. Background paper for the WORLD DEVELOPMENT REPORT 2008, Centre for Development and Poverty Reduction, Centre for Environmental Policy, Imperial College London.
- Dyer J., Singh H., 1998** - *The relational view: Cooperative strategy and sources of interorganizational competitive advantage*, Academy of Management Review, 23(4): 660-679.
- Emmanul O., Nhlanhla N., 2014** - *An Examination of the Success Factors of Co-operative-Run Agricultural Schemes: A Case Study of Intantsi Agricultural Secondary Co-operative Limited*, OIDA International Journal of Sustainable Development, 7(12): 111-118.
- Fabre C., Loose F., Bourdil M., 2020** - *Quel leadership pour les Sociétés Coopératives: Les apports de la théorie du leadership transformationnel et transactionnel.*, Revue @GRH, 3(36): 37-69
- Fafchamps M., 1996** - *The enforcement of commercial contracts in Ghana*, World Development, 24(3): 427-448.
- Fulton M., 2001** - *Leadership in democratic and participatory organizations*, Canadian Journal of Agricultural Economics, 49(4): 381-394.
- Fulton M., Giannakas K., 2001** - *Organizational commitment in a mixed oligopoly: Agricultural cooperatives and investor-owned firms*, American Journal of Agricultural Economics, 83(5): 1258-1265.
- Garnevska E., Liu G., Shadbolt, N.M., 2011** - Factors for successful development of farmer cooperatives in Northwest China, International Food and Agribusiness Management Review, 14: 69-84.
- Giagnocavo C., Galdeano-Gómez E., Pérez-Mesa J.C., 2018** - *Cooperative Longevity and Sustainable Development in a Family Farming System*, Sustainability, 10: 2198.
- Grashuis J. 2018** - *An Exploratory Study of Cooperative Survival: Strategic Adaptation to External Developments*, Sustainability, 10: 652.
- Grashuis J., 2019** - *Agricultural firm survival: The case of farmer cooperatives in the United States*, Agribusiness, 36: 79-93.
- Gundani S.R., Nevondwe L., Odeku K.O., 2018** - *The contribution of co-operatives to rural economic growth and poverty alleviation in South Africa: lessons from Bangladesh*, Bangladesh e-Journal of Sociology, 15(2).
- Hansmann H., 1999** - *Cooperative firms in theory and practice*, LTA, 48(4): 404-417.
- Ibourk A.; El Aynaoui K. 2023** - *Agricultural Cooperatives' Sustainability and the Relevance of Start-Up Support Programs: Evidence from Cooperatives' Level in Morocco*. Sustainability, 15: 3460.
- Kyriakopoulos K., Meulenberg M., Nilsson J., 2004** - *The impact of cooperative structure and firm culture on market orientation and performance*, Agribusiness, 20(4): 379-396.
- Markelova H., Meinzen-Dick R., Hellin J., Dohrn S., 2009** - *Collective action for smallholder market access*, Food Policy, 34(1): 1-7.
- Nyoro J., Ngugi I. 2007** - *A Qualitative Analysis of Success and Failure Factors of Agricultural Cooperatives in Central Kenya*, Decentralization and the Social Economics of Development: Lessons from Kenya, pp. 12-32.
- Onumah G., Davis J., Kleih U., Proctor Felicity, 2007** - *Empowering smallholder farmers in marketing systems and innovation responses by producer organisations*, ESFIM Working Paper, Natural Resources Institute, University of Greenwich.
- Osterberg P., Nilsson J., 2009** - *Members' perception of their participation in the governance of cooperatives: the key to trust and commitment in agricultural cooperatives*, Agribusiness :New York), 25(2): 181-197.
- Rankin M.K., Russell I.W., 2012** - *Building Sustainable Farmer Cooperatives in the Mekong Delta, Vietnam: Is Social Capital the Key?*, Journal of Development, 4(4).
- Rousslièr D. and Joly I., 2011** - *À propos de la Capacité à survivre des coopératives: Une étude de la relation entre âge et mortalité des organisations coopératives agricoles françaises*, Rev. D'études Agric. Environ. 92: 259-289
- Seabright P., 1997** - *Is cooperation habit-forming? The Environment and Emerging Development Issues*, 2: 283-307.
- Sexton R., 1986** - *Cooperatives and the forces shaping agricultural marketing*, American Journal of Agricultural Economics, 68(5): 1167.
- Sexton R., Iskow J., 1988** - *Factors critical to the success or failure of emerging agricultural cooperatives*, Giannini Foundation Information Series, 88(3).
- Shirima V., 2022** - *Critical Success Factors for the Better Performance of Agricultural Marketing Co-operative Societies in Rombo District, Tanzania: Are Members Aware of Them?*, Cogent Business & Management, 9(1): 2144703.
- Solomon P., 2023** - *Can cooperatives be a tool for poverty reduction? Social capital perspectives of fisher's cooperatives in India*, Mar. Policy, 147,
- Timmer C., 1989** - *Food price policy: The rationale for government intervention*, Food Policy, 14(1): 17-27.
- Trechter D.D., King R.P., Walsh L., 2002** - *Using communications to influence member commitment in cooperatives*, Journal of Cooperatives, 17: 14-32.
- Valentinov V.L., 2004** - *Toward a Social Capital Theory of Cooperative Organisation*, Journal of Co-operative Studies, 37: 5-20.
- Veen-Dirks P., Wijn M. 2002** - *Strategic control: Meshing critical success factors with the balanced scorecard*, Long Range Planning, 35(4): 407-427.
- Zeuli K., 1999** - *New risk-management strategies for agricultural cooperatives*, American Journal of Agricultural Economics, 81(5): 1234-1239.