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**INTERDISCIPLINARY RESEARCH ON THE
ECONOMIC AND NON-ECONOMIC ADVANTAGES
OF MARKETING CO-OPERATIVES: CASE OF THE
HUNGARIAN MÓRAKERT CO-OPERATIVE**

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DIVISION OF PRESENTATION

- 1. Introduction: aims and methods**
- 2. Economic roles and non-economic possibilities of marketing co-operatives**
- 3. Producers' organisations in the Hungarian fruit and vegetable sector**
- 4. Hungarian Case Study on the “Mórakert” Purchasing and Service Co-operative – „Questions for ourselves” by Roland Huszta (Mórakert Co-operative)**
- 5. Trust, loyalty, incentives and New Institutional Economics considerations regarding human factor in case of Mórakert Co-operative**
- 6. Conclusions of the case study**

1. Introduction

- Two main goals of the study are
 - to show economic and non-economic advantages of marketing co-operatives (producers' organisations)
 - to examine the integration role of Mórakert Purchasing and Service Co-operative in the Hungarian fruit and vegetable sector with special emphasis on human factor (trust, motivation, incentives etc.) consideration
- Main methods used during the research:
 - literature review,
 - collecting secondary (statistical) data,
 - interviews and
 - case study analyses

2. Economic roles and non-economic possibilities

Co-operative Rationale

- Basic co-operative concept which reflects three basic criteria (Barton 1989a):
 - "A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use."
- Three main relations exist between the member and the (marketing) co-operative:
 - the *product*,
 - the *capital* and the
 - (*democratic*) *managing-control* line.
- Economic and non-economic advantages of co-ops

2. Economic roles and non-economic possibilities

Economic Advantages of Co-operatives

- Access to secure markets for the long term
- Carry out services only available at high costs
- Build up countervailing power
- Increase technological and market efficiency
- Decrease and internalise transaction (information) costs
- Lower both economic and technological uncertainties
- Avoid (ex post) hold-up problems
- Reimbursement of the surplus for the members made at another level of the marketing channel
- As a conclusion: co-op can save a relatively high degree of independence of economic action (Ollila, 1994) – partial integration, bottom-up organisation

2. Economic roles and non-economic possibilities

Non-economic reasons of co-op: the human factor

- *First*, co-operatives used to be considered as organised trusts (Hakelius 1996).
- *Second*, the social and informal network of the members or potential members can decrease transaction costs
- *Third*, better knowledge and confidence among the members is the secret of how co-operatives can be highly efficient despite the lack the necessary capital to invest (Røkholt 1999).
- *Fourth*, because of the more closely and informal connection, the hold-up problem usually not as significant like in any other contractual relation between a farmer and Investment Oriented Firms (IOFs)

3. Producers' organisations in the Hungarian fruit and vegetable sector

- Producers' organisations (POs) are *active in the fruit and vegetable sector* and they exist in other legal forms as well, but most of them are co-operatives – may be not without a reason
- POs organise production; store, grade, process and market products and are set up by producers of a certain product or (sub)region.
- Main aim: to increase the income of the individual members and therefore the function of the PO is:
 - to *co-ordinate demand and supply* of members so thus
 - to *establish countervailing power* on the market.
- Hungary: very few POs in the fruit and vegetable sector:
 - 11 officially recognised (Mórakert Co-op was the 1st in 2002) and 50 provisionally recognised
 - Not concentrated enough: 10% ↔ *retail chains*

4. Hungarian Case Study on the Mórakert Purchasing and Service Co-operative

Outline of the case study

- **History and Background**
- **„Co-operative identity” of the Mórakert co-op**
- **Marketing and organisational strategies**
- **Capital requirements: methods of financing**
- **Services and integration**
- **Trust, loyalty, incentives: human factor considerations in case of Mórakert Co-operative**

4. Hungarian Case Study on the Mórakert Purchasing and Service Co-operative

History and background

- **Precedents of the co-operative**
- ***Laws I and II on Co-operatives* (Transition and Unified Co-operative Laws) – 1992**
- **The role of the local authority of Mórahalom**
- **The establishment of the Common Agricultural and Entrepreneurial Society, Mórahalom (1994)**
- **Establishment of the Co-operative - 52 members (1995)**
- **Provisionally recognised PO (2000)**
- **1st Officially recognised PO in Hungary (2002)**

„Co-operative identity” of the Mórakert co-op

- Main aim of the co-operative:
to *increase the income* of the 750 farmer-members
- Roles of the co-operative:
 - to *purchase input materials* at low costs,
 - to access to and *secure markets* and
 - to gain relatively *high* prices for the vegetable and fruit products produced by the members
- Co-operative principles:
 - *business at cost* and *proportionality in providing capital*,
 - *but 1 member – 1 vote in controlling the co-op*

Marketing

- Marketing channels used and their share:
 - Domestic: 80%
 - retail chains - 90% from domestic distribution: ↑
 - wholesale markets: ↓
 - individual shopkeepers: ↓
 - Export: 20% ↑ (mainly through exporters)
- Building up countervailing power
- Branding – differentiation of their products
- Contract requirements of retail chains regarding price, timing, logistics, assortment and quality
- Contracts with members: if 90-110% delivered → 2% bonus
- Quality assurance: HACCP, EUREPGAP, BRC

New marketing and organisational strategies

- New marketing strategies

- Products with *higher added value - branding*
- Product *differentiation* (potato, paprika, tomato etc)
- Providing *whole assortment* for retail chains
- *New investments*: increase the capacity of the cold-storage depot and the operation plant significantly
- *Increasing the share of export*
- Establishment of a *secondary or regional type co-operative* to exploit countervailing power and *reducing transaction costs*
 - *further integration*

- Organisational changes:

- Mórakert TЭСZ Kft. (Ltd) – daughter company
- Mergers and further integration (secondary level)

Methods of financing

Capital requirements for members

(stated in the by-law):

- **Co-operative shares: 180,000 HUF/member**
- **Members' single payment contributions:
330,000 HUF/member**

Additional sources of capital for the co-op

- **Contribution to the operating cost of the PO:
4.1% of the turnover**
- **EU/Hungarian subsidises as a PO**
- **Reinvestment significant part of the surplus annually**

Services and integration

- Co-ordinating the *purchase* of input,
- Market produce (output) of the members
- Grading, storage, processing, packaging and transporting of members' products,
- Providing information (co-op magazine, sms service etc.),
- Consultation (advice)
- Inclusion in marketing and promotion materials
- Factoring

5. Human factor in case of Mórakert Co-operative: New Institutional Economics (NIE) considerations

The co-operative, analyzed in present case study, is a good example, how an agricultural co-operative can achieve some of the potential advantages, solving many “traditional” NIE problems:

- *Free rider* problem: higher share of non-members trade – solved with organisational change (Mórakert TЭСZ Ltd.)
- *Common property considerations* ↔ different methods of financing, subsidies etc.
- *Horizon problems* ↔ flow of information
- *Potential agency problems* ↔ trust in leaders

5. Human factor in case of Mórakert Co-operative: possible problems in the future!?

MEMBERS

- *Heterogeneity of members – different interest:*
 - Big farmers: do like and able to invest
 - Small farmers: do not like and/or not able to invest
- *Trust:*
 - among the members and
 - between members and the management
- *Commitment: members are only interested in business*
- *By-passing the co-operative: selling on spot market*
- *Contract enforcement is weak*
- *Possible causes for exclusion of members – very rare*

5. Human factor in case of Mórakert Co-operative: possible problems in the future!?

STAFF AND MANAGEMENT

- *Human factor consideration:*
 - too fast development?!
 - the staff and management is under pressure
 - there is no human resource manager
 - fluctuating working force

However:

- employees/management commitment to the managing director is very important
- dedicated and innovative management

6. Conclusions of the case study

- Problems of farmers cannot be solved simply by EU and/or government support
- Such organisations, like the Mórakert co-op can be a solution for farmers to cope with their problems arising from incomplete pricing mechanisms and to reduce transaction costs, at least at the regional level.
- Main reason of success:

Economic success: growth in number of members and turnover as well

Members' trust in co-operative (board and management)

Employees/management commitment to the managing director