
Аграрна політика та сільський розвиток

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THE IDENTITY OF AGRICULTURAL MARKETING COOPERATIVE AS A BUSINESS ENTERPRISE

The concept of agricultural marketing cooperative in a market economy and democratic society has been introduced. It has been argued, this form of group interactions of agricultural producers is a type of enterprise with all its inherent attributes. It is noted that cooperatives in agribusiness are the integral part of the developed countries' national economies. With the use of the USA and the European Union statistical materials it was proved the illegality of classifying such cooperatives exclusively to small and medium businesses. It has been highlighted the fact of belonging marketing cooperatives to the corporate form of business, and attention has been paid to prevention of the typical corporate conflict occurrence – between members-patrons and hired management. The attention was also paid to the interpretation of non-profit status of marketing cooperatives.

Key words: cooperation, agricultural marketing cooperative, enterprise, corporation, non-profit status.

Formulation of the problem

The unique role of agricultural cooperatives in a market economic system is worldwidely confirmed. Their distribution is connected with achieving synergistic effect of agricultural producers' joint actions. This effect finds its expression in the confrontation to unproductive (speculative) business intermediaries, profit opportunities not only in agriculture but also due participation in the creation of value added produce and large scale business transactions including involving into international markets, access to services at cost, use of professional management, coordination and division of risk. In addition to these purely economic factors of group activities motivation, cooperatives conduct an important social mission, and recently have notably strengthened their environmental orientation.

Agricultural cooperatives are gradually spreading in agriculture of Ukraine. They have not yet played a significant role in gross agricultural production, providing rural employment and the formation of state budget. However, taking into consideration the current organizational structure of Ukrainian agriculture and fact of dominating role of small producers, the need of cooperative development becomes increasingly obvious. Under such conditions it is very important to direct growing wave of cooperative studies on such methodological interpretation of the essence of cooperatives which has

positioned them as business organizations (enterprises or companies) of a special economic nature, an inherent part of the market economy and an important institution of a democratic society.

Analysis of recent research and publications

For a long time there were two parallel conceptual approaches to the interpretation of the nature of cooperative organizations. Under the first approach, which was common in countries with a market economy, cooperative is a private business enterprise that operates under market conditions. The outstanding cooperative researchers such as I. Emelianoff [1], C. LeWay [2], D. Barton [3] strongly supported this view. The second approach involved the special mission of cooperatives in countries that had centrally regulated economy, in which cooperatives under the influence and control of the state and leading political forces. But the use of common names of their organizations, as well as some basic organizational principles (such as open membership, democratic control, accountability etc.) made possible collaboration between cooperatives of both types within such organizations as the International Cooperative Alliance and the International Labour Organization.

One of the most respected co-operative experts in Europe, prof. H-H. Münkner states that due to known geopolitical changes dualism on conceptual approach to determine the nature of cooperative gradually disappears. In his opinion pragmatic, organizational conception it is proposed to remove all ideological components and to define a co-operative as an organization with four components: 1) a group, 2) self-help motivation of the group members to meet individual and common needs, 3) a jointly owned and controlled enterprise and 4) the object of the enterprise to promote the interests of the members [4, p. 18].

Among well-known Ukrainian researchers the consideration of agricultural cooperative primarily as a business organization is supported by L. Moldavan [5, p. 17], F. Horbonos [6, p. 80], J. Ushkarenko [7, p. 58]. However, the definition of a co-operative does not always emphasize the necessity of creating enterprise to achieve the main goal of the joint actions. For example, professors V. Honcharenko and A. Panteleymonenko consider this form of group activities as a democratic association of people united by the aim of mutual assistance for the solution of common economic problems on non-profit basis [8, p. 20; 9, p. 35].

Such suggestion is absolutely correct for credit and consumer cooperatives. But in order to survive under conditions of contemporary agribusiness, cooperatives of agricultural producers must operate as a competitive market structures. Because of that there is the increasing tendency to consider cooperative as a business organization (as an enterprise). That is why the economic nature of agricultural cooperatives needs a deeper interpretation.

The aim and methodology of the study

The aim of the study is to support and develop the idea that the agricultural cooperative represents a type of enterprise with the appropriate organizational

attributes as well as the adequate registration procedure and usual practice of business operations. It is important to prove that the classifying cooperatives only to small and medium businesses would be considered as a methodological inaccuracy, and the international experience gives convincing arguments for this. In agriculture the phenomenon of cooperation makes it possible for farms with the small physical size (eg. in European Union the average size of farms less than 13 ha) to join a large-scale and competitive agribusiness. Due to this fact the cooperatives of small agricultural producers are considered as an important component of national economic systems even in the developed countries.

The research methodology is based on the doctrine of the mission and fundamental principles of cooperation in a market economy and democratic society, interpretation of modern views on the driving forces and motivation of cooperative processes, the importance of cooperatives for sustainable development of agricultural sector [10, 11, 12, 13]. The key methodological approach of this study is to focus on strengthening entrepreneurial fundamentals of agricultural cooperatives, discovering their competitive advantages as a form of corporate business. There is also the necessity to make a recovery in the discussion of non-profit status of cooperatives with the relevant conclusions for the agricultural sector of Ukraine. The empirical evidence of the study results has been confirmed by statistical data, experts' appraisals, abstract models and personal experience gained due participation in the formation and consultative support of cooperative structures.

It is also necessary to make a comment on *conceptual apparatus* of the study. It is understood that marketing cooperatives are created by agricultural producers in agribusiness but not directly in the sphere of agricultural production. They are actually market oriented formations. In order to distinguish this type of cooperatives from the so called production cooperatives which operate in agricultural production on the collective basis (pseudo-cooperatives) the Ukraine legislation recognized marketing cooperatives as "agricultural servicing cooperatives". But the term "marketing cooperatives" seems more adequate to international cooperative terminology because in the world practice "servicing cooperatives" are mainly engaged in the providing of technical services to agricultural producers.

Research results

Agricultural cooperatives play a crucial role at mitigating the global food problem supporting mainly smallholder farmers by providing them access to modern technologies of production, processing and marketing of their products, making them equal participants of business processes and resistant to turbulent changes and the challenges of an aggressive competitive environment. According to the FAO it is estimated that 1 billion individuals are members of cooperatives worldwide, generating more than 100 million jobs around the world [14, p. 7]. Taking into consideration the declared intention of granting priorities for private family farms in Ukraine, it is expected the increasing interest in the development of marketing cooperatives in the near future.

Recently there has been a clear trend orientation of the cooperative legislation at a conceptual approach according to which the cooperative now is considered to be based on private ownership of its members and to operate under competitive markets conditions without special state financial support and control from above. But it should be also added that the cooperative is a specific type of business. Its uniqueness lies in the fact that it focused not on profit for itself but on how to fully meet the economic needs of its member-patrons to make them profitable. Cooperatives can even be considered as supporting or servicing structures in relation to the major economic tasks set by their members-patrons.

Widely accepted the enterprise in a market economy is an independent business entity created by the entrepreneur or association of entrepreneurs for the manufacture of products, works and services in order to meet social needs and profit [15, с. 18]. The profit orientation of entrepreneurship is also provided by the Economic Code of Ukraine [16, art. 42]. Consequently, each business enterprise, as a special type of organization, could be characterized by participation in economic activities, use of the necessary material resources and managerial efforts, and focus on profit-making. Marketing cooperatives are also subject to the standard registration procedure.

It should be stressed that making a profit, and eventually the constant striving to increase its mass (volume) and increased the level of profitability (comparing with production marketing costs) is *a priori* considered as the main motivating determinant of entrepreneurial activities. However, the variety of organizational and legal forms of businesses suggests the need for a differentiated approach to the treatment of basic characteristics of certain types of enterprises. Especially it concerns the agricultural marketing co-operatives. There are three features that distinguish the agricultural marketing cooperative as a form of businesses:

1. A cooperative is a voluntary association of individuals and organizations that have common economic interests and agree to create an enterprise for the achieving their economic goals. The cooperative is a form of corporation because its members by creating a new organization do not lose their economic independence and autonomy.

2. As a business structure the cooperative operates on non-profit basis, means not for profit for itself but providing services of its members, distributing a part income (which in regular companies is to be a profit) in proportion to the members' participation in business. The requirement of proportionality extends the obligations of the cooperative to fund their organization, losses, risk division etc.

3. As an enterprise the cooperative is wholly owned and controlled by those who use its services and who with its help meet their economic needs. The cooperative has a democratic system of management which involves the participation of all member-patrons in the development and adoption of cooperative policy decisions. The implementation of these decisions is imposed on elected bodies which hire professional management, delegate the authority and resources, and systematically monitor its work.

Thus, synthesizing all of the characteristics in a single definition and interpreting it can be assumed that agricultural cooperative is a corporate type enterprise created by a voluntary association of equity shares and managerial efforts of agricultural producers-owners (both individuals and legal entities), the organization of democratic management and the distribution of risk and income according to participation in the cooperative business.

Of course, marketing cooperatives in their development have been passed and still are passing through a certain evolution. Almost always they started out as small businesses, and often at an early stage they had only a local scale influence and limited economic possibilities. However, this is no reason to associate them exclusively with small and even medium-sized businesses. The economic potential of cooperative enterprises assumes a relatively rapid and sustainable expansion of business scale and increase of their membership. In this respect, marketing cooperatives is a convincing illustration of the possibility to obtain the economies of scale, which is an important motivational factor of agricultural producers' preferences of the particular organizational form for their participation in agribusiness. The size of the world largest agricultural cooperatives indicates that they quite rightly can be attributed to large scale agribusiness, and in some cases even of global significance (Table 1).

Table 1. The top 10 co-operatives from around the World, 2014

Rank	Name	Country	Sector	Revenue (\$ bn)
1	Zen-Noh (National Federation of Agricultural Co-operatives)	Japan	Agriculture / Forestry	56,99
2	Zenkyoren	Japan	Agriculture / Forestry	52,33
3	National Agricultural Cooperative Federation	Korea	Agriculture / Forestry	32,39
4	CHS Inc	United States	Agriculture / Forestry	32,17
5	Covea	France	Agriculture / Forestry	17,74
6	BayWa Group	Germany	Agriculture / Forestry	12,24
7	Land O'Lakes	United States	Agriculture / Forestry	12,04
8	Dairy Farmers of America	United States	Agriculture / Forestry	11,82
9	Fonterra Co-operative Group	New Zealand	Agriculture / Forestry	11,34
10	Arla Foods	Denmark	Agriculture / Forestry	9,25

Source: View the top 300 co-operatives from around the world [16].

It is important that co-operatives are the unifying force of small agricultural producers. Such cooperation can be considered as the mechanism of their economic (and hence social) protection. In this regard, there is a very instructive experience of the EU countries where the model of agricultural cooperatives is based on the systematic interaction of the small size farms mostly of family type to participate in large scale and highly competitive agribusiness, and on this basis to obtain market power, to ensure equality in the business for farms of any size and specialization, rapid adaptation to growing requirements for environmental safety of agricultural sector. The existence in the EU over 38,000 agricultural cooperatives confirms this fact [17, p.18]. The 300 largest European agricultural cooperatives have an annual turnover of more than €100 billion [4, p. 33].

The potential of the cooperative form of agribusiness is also convincingly confirmed by the experience of the United States (Table. 2). In spite of insignificantly shrinking total number of cooperatives and a relatively stable number of their members, the total volume of their joint business is steadily increasing. This reflects the concentration and an increasing scale of farmer cooperative business. Three U.S. cooperatives are included to the top-10 largest agricultural cooperatives in the world. In general, the system of agricultural cooperation the United States demonstrates its stability and retains attractive for American farmers.

Table 2. U.S. agricultural cooperatives in 2012-2014

Item	2012	2013	2014	2012-2014	
				Difference	Change,%
Number of cooperatives	2238	2186	2106	- 132	5,9
incl. marketing	1206	1195	1114	- 92	- 7,6
supply	911	871	876	- 35	- 3,8
service	121	120	116	- 5	- 4,1
Total sales, billion \$	237,8	244,1	244,5	6,7	8,8
incl. marketing	140,9	144,6	147,7	6,8	4,8
supply	92,2	95,9	92,6	0,4	0,4
service	4,7	3,6	4,2	- 0,5	- 0,6
Membership, million	2,1	2,0	2,0	- 0,1	- 4,8
Employees, thousand	185,6	190,6	191,3	5,7	3,1
incl. full-time	129,4	135,2	135,6	6,2	4,8
Assets, billion \$	83,4	82,687,1	87,0	3,6	4,8
Net business volume, billion \$	202,6	208,6	210,3	7,7	3,8
Net income before taxes, billion \$	6,1	6,2	n.a.	-	-
Net worth, billion \$	30,2	34,6	n.a.	-	-

Source: Sarah and Eversull [19, p. 6], Eversull and Sarah [20, p. 6],
Rural Cooperatives / September/ October, 2014 [14, p. 5,7],
Rural Cooperatives / November/ December, 2015 [15, p. 4,5].

Increasing volume of co-operative business and the essential number of its participants intensifies the requirements for the management of cooperative structures. The uniqueness of the cooperative enterprise is primarily conditioned by its system of management which consists of three levels: 1) ordinary members of the cooperative, 2) its democratically elected leadership body and 3) professional (hired) management led by general manager (or CEO – central executive officer). Each management authority plays a clear role. In the case of insufficient activities of any instance or the fulfillment of inappropriate functions leads to the conflicts which ultimately threaten the existence of the cooperative enterprise.

The success of cooperative is rightly associated with its hired team of highly qualified managers which are entrusted by cooperative members have to manage their enterprise. The increasing role of hired executive staff gradually alienates cooperative member-patrons from participation in the management of their joint business. Unfortunately, it is an objective evolutionary process of further development of governance in cooperatives. There are spreading fears of a gradual transition of real power to professional managers. The best way to prevent this conflict is to develop effective communications with use of modern technical means as well as mandatory compliance with the fundamental principles of cooperation. Thus, the possibility to manage conflicts is inherent for the nature of co-operatives which are preferably distinguished them from ordinary corporations.

Another important but a discussion feature of cooperative enterprises, which significantly distinguishes them from ordinary corporations, concerns their financial system. Agricultural marketing cooperative is to operate on non-profit basis to provide services and does not include profit into the price of their services. In case of providing service in marketing as well as in input supply cooperative operates like an ordinary commission trade agency. Thus, the non-profit status of the cooperative is implemented through servicing its member-patrons at cost. Any expenses, including the capital investments, are reimbursed by the membership payments.

But in terms of risk and market uncertainty it is impossible to determine cooperative expenses as well as to predict fluctuations in market prices for products and supplies. Therefore cooperatives which assume ownership have to find a way to insure their activities. So in fact they cannot operate without profit. Some countries clearly specified conditions by allowing such cooperatives to be recognized as non-profit organizations even if in the case of gaining the revenue which in ordinary companies is defined as profit. These conditions may concern requirements for membership (*bona fide* agricultural producers), restrictions on services for not members of the cooperative, the distribution of cooperative benefits proportionally participation in the cooperative business. If not cooperatives are taxed as ordinary corporations. But in any case the privileges in taxation or any other fiscal considerations are not considered as the main motivating factor for cooperative actions as well as cooperatives are not created for gaining and accumulation of profit.

Conclusions

1. At present, cooperatives maintain their economic and social importance in the world economy especially in agriculture. Cooperatives in agribusiness are the integral part of the economic system of the developed countries. Given the size of the agricultural potential of Ukraine and intentions with respect to its implementation, the formation of the agricultural sector' cooperative structure can be considered as one of the important goals of market transformation of the national economy.

2. Agricultural marketing cooperatives are companies created on basis of certain organizational principles, have the unique economic nature and use practices that distinguish them from other types of businesses. The combination in one person business owners and its customers is the main identification feature of the cooperative enterprise.

3. It is illegitimately to consider agricultural marketing co-operatives solely as a form of small and medium-sized businesses. It may be significant in the initial phase of their development. The experience of the United States and the European Union has demonstrated that agricultural cooperatives achieve tremendous scope in agribusiness and provide the advantages and benefits their member-patrons regardless of their farms size, specialization and economic capabilities.

4. Agricultural marketing cooperative is a variety of corporation. An increase in their size raises the problem of ensuring effective management of joint business under the conditions of increasing role of the professional (hired) management. Development and implementation of the communication policy and compliance with the fundamental principles of cooperation is an effective means to avoid corporate conflicts within agricultural marketing cooperatives.

5. One of the discussion points in the identification of agricultural marketing cooperative as a business enterprise is the interpretation of its non-profit status. Owning such status is not yet its identification feature. However, the obtained status contributes to recognition of the core mission of the cooperative – providing services to its members in order to make profitable their personal business.

Prospects for further research

Agricultural cooperatives are not the only effective form of interaction between producers. The evolution of the cooperative movement involves improving the traditional forms of group interactions of farmers and the emergence of new structural formations. The possibility of their adaptation to the conditions of Ukraine presents theoretical and practical interest that could serve as a vector for further scientific search.

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