

Conference on “Transition in Agriculture - Agricultural Economics in Transition VI”
Institute of Economics, Hungarian Academy of Sciences, Budapest, 6-7 November, 2009

THE IMPORTANCE AND ROLE OF TRUST IN AGRICULTURAL PRODUCER-OWNED ORGANISATIONS

Dr. Gábor G. Szabó

Senior Research Fellow

Institute of Economics, Hungarian Academy of Sciences

Budapest, Hungary

H-1112 Budapest, Budaörsi út. 45. Hungary (Mailing address)

szabogg@econ.core.hu

Abstract

In theory and according to Western European (Dutch, Danish etc.) and US practical experiences, one of the main important private institutions which can strengthen producers' countervailing power and help to co-ordinate (agricultural) chains is the co-operative form. According to many authors and writers, one of the sources of increasing the competitiveness of co-ops can be traced back to trust which exist between the members and the co-operative (management), as well as among the members. In this paper using mainly New Institutional Economics' theories, as well as the “co-operative identity” concept, we try to analyse the role and importance of trust and co-operative principles in cases of agricultural producer-owned organisations. Empirical (case) studies supplement the theoretical considerations. Such producers' organisations, like the Mórakert Co-operative and the others mentioned in the study can be solutions for farmers to cope with their problems arising from incomplete pricing mechanisms and to reduce transaction costs, at least at the regional level. Some of them are also good examples for the vertical integration based on the horizontal coordination of farmers as initiators. Despite recent liquidity problems, they also prove that by co-operation there is an opportunity to significantly improve their countervailing power and to establish ownership for farmers in the upper part of the food chain if they can secure strict quality requirements, solid financing, loyalty and trust in their organisations.

Key words:

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

JEL classification: Q13, L14, L22

THE IMPORTANCE AND ROLE OF TRUST IN AGRICULTURAL PRODUCER-OWNED ORGANISATIONS

1. Introduction: theoretical background, motivation and methods

In theory and according to Western European (Dutch, Danish etc.) and US practical experiences, one of the main important private institutions which can strengthen producers and help to coordinate (agricultural) chains is the co-operative form. Apart from securing markets, producer-owned organisations can save a relatively high level of independency for their members compared to the integration by contracts offered by investment oriented (conventional) firms. They 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 advantages*, like strengthening trust and social capital, which can be also important for the successful development of co-operatives and for the society in general. The advantages offered by producer owned organisations (see section 3) are especially important in case of transforming agri-food economies.

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

Trust in co-operatives 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 and writers, one of the sources of *increasing the competitiveness of co-ops (for example by decreasing transaction costs)* can be traced back to *trust* which are exist *between the members and the co-operative (management)*, as well as *among the members*.

In present preliminary paper, we try to *analyse the importance, foundations and roles of trust in co-operatives* and in other producer-owned organisations; as well as to find the answer to one of our main research questions: *what are the roles of co-operative principles serving as formal-legal securities of trust (development) in co-operatives and thus able them to reduce some kinds of transaction costs?*

In this paper *New Institutional Economics* analyses (e.g. agency and TCE theories) and the concept of the “*co-operative identity*” (consisting from the definition, aims and functions of co-operatives, as well as the so-termed *co-operative principles*) supply the theoretical framework. *Brief empirical (case) studies supplement the theoretical considerations*.

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

2. Different approaches to trust with special emphasis on agri-food economy

Trust as a subject of study of (agricultural) economics is a relatively new phenomenon since it was used more in sociology, anthropology and other “soft” disciplines. However, in the last 25 years the number of publication on trust in economics literature has been growing 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 length of another publication to mention them, so here only some references will be made.

One of the most general, however *most useful definitions* 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: p. 1645)

Trust as a verb has an interesting, little bit different meaning as well 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: p. 1646)

The definitions above are suitably to understand trust in everyday life, but they also gives us some correct information 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 in them (as they are honest people), they do not separate and categorise their feelings/beliefs as researchers do.

Nevertheless, to be able to understand the development of trust in co-operatives and possible ways to influence it, different authors classify many types of trust (e.g. cognitive and affective types etc.) as well as different levels of trust in a co-operative organisations (e.g. between two members, among multiple members in general, as well as between the members and management).

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 one is mainly based on rational calculations and empirical evidence.

Wilson (2000) classifies different types of trust relationships, as well as gives an overview and critique of social capital and trust, including references to agribusiness economics.

Hansen et al. (2002) develop these categories a bit 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 (2002) states “...that trust is essential to guarantee the success of cooperative relationship.” (Sodano, 2002: p. 104)

She also emphasise “...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: p. 105)

In searching for “workable” definition of trust, Sodano present two main types of trust:

1. Trust as a form of social organisation (*impersonal trust*), as well as,
 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: p. 109)

Bakucs et al. (2008) give a *theoretical background of trust* issue in agricultural co-operatives, including references for more detailed review.

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: p. 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: p. 1) They also "...distinguished trust from other similar construct like cooperativeness, confidence, and expectation." (Török and Hanf, 2009: p. 9.)

Jones and Kalmi (2009) approach *trust on a macro level* with comparison of 300 largest co-operatives 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 causal role in accounting for differences in co-operative incidence (Jones and Kalmi, 2009: p. 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-operatives. Their "key results on the significance of trust highlights the role of interpersonal trust as a prerequisite, rather than a consequence, of co-operative incidence. "(Jones and Kalmi, 2009: p. 190.).

Based on their empirical results, regarding the possibilities of solving market failures by co-operatives, they think: "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: p. 190.). They also state the limitation of their survey, namely that they included data from only the largest developing countries and ignored 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 limitations are.

3. Economic advantages and limitations of producer-owned organisations in coordination of agricultural producers

There is a great significance of different (marketing) organisations of agricultural producers in the agri-food economy of European Union, like 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 the organisation, 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 co-operative, mainly 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 won't exploit members.

Marketing co-operatives in Western Europe and US 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 get 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 get a positive welfare effect as well without any or significant state support financed by tax players. They can also play significant roles in rural development solving - at least partly - the very serious problem of unemployment in less developed rural areas.

In Western Europe, for example in Holland and Denmark (agricultural) co-operatives are bottom up organisations and they 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 of 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, 1989: 1). According to the above definition *three main relations* exist between the member and the marketing co-operative: the *product*, the *capital* and the *democratic managing-control* line. The definition above 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.

To be able to compare with the above definition, it is useful to recall here the *definition of a co-operative included in the ICA Statement* which underlines the association character including social and cultural aims: “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” (ICA, 1995).

In order to be able to exploit economic (and non-economic) 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 (Hendrikse and Veerman, 2001a). The co-operative is a *partial/hybrid form of (vertical) integration*, which means that farmers 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) The *co-operative*, in the modern sense, *is a hybrid formula*, because apart from the ownership of common property members sign a special “multilateral contract”. 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 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. “The cooperative has, in a way, both markets and hierarchies within the same organisation” (Ollila, 1994: 88).

The recent co-operative literature emphasizes the following *potential incentives* for the establishment of *co-operatives as a form of horizontal and/or vertical integration*. First, co-

operatives traditionally can provide *access and secure markets* for the long term, therefore give *protection for independent farmers* against the large commercial and/or industrial companies. They can also carry out *services otherwise not or available at very high costs*. Second, co-operatives *build up countervailing power* and above a certain economics of scale they act as *competitive yardstick* for non-co-operative, conventional firms and the whole sector with a *better influence on the market and prices*. Third, co-operatives in some cases can *increase technological and market efficiency* and carry out activities with a *higher added value*. Fourth, co-operatives can *decrease and internalize 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 *lowering both economic and technological uncertainties* therefore decrease transaction costs. To *avoid (ex post) hold-up problems* in the case of perishable products and different types of asset specificity is also a main reason to use a co-operative as a governance structure. Finally, co-operatives can *increase the income of the members* above by lowering transaction and production cost, by *reimbursement of the surplus for the members made at another level* of the marketing channel.

Furthermore, the co-operative is a partial vertical integration, which means that farmers can save 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, p.88)

Despite the advantages 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 of the traditional (countervailing power) co-operative model (van Bekkum and van Dijk, 1997; Nilsson, 1998b) according to the agency theory (Nilsson, 1998a; Vitaliano, 1983).

The basic source of the agency problems of complex organizations 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). Cook (1995) employs a co-operative life-cycle model consisting from five stages, whereas on stage three he definite five problems. The five inherent organizational problems of co-operatives are the following: *free-rider, horizon, portfolio, control and influence cost problems*.

We may conclude that agricultural co-operatives have *advantages*, where *there is a significant market failure problem*, especially in the cases of some perishable products like fruit-vegetables and milk, and when the market is not saturated. When the market-mechanism is working well and the different types (contracting, monitoring, enforcement) of transaction costs are not high compared to the internal organization costs, then *a co-operative organizational form is not as desired governance structure and/or marketing strategy*, than in the previous case (Harte, 1997). Hendrikse and Veerman (2001a) also argue that in differentiated product markets with a high level of asset specificity, marketing co-operative is probably not the best solution as a governance structure. They predict governance structures in which members (farmers) have less decision power. Even *some other forms of alternative producer governance structures* with appreciable and transferable equity shares (Sykuta and Cook, 2001) are likely to emerge, as well *grower associations and participation companies* (Hendrikse and Veerman, 2001a). Regarding solving financial constraints, one of the new features of New Generation or Entrepreneurial type of co-ops is the up-front investments need to be made in proportion of the planned patronage of the members in order to implement new marketing and organisational strategies (Nilsson 1997, 1998b; van Bekkum and van Dijk, 1997).

4. Human factor foundations and roles of trust in co-operatives

4.1. Human factor considerations regarding co-operative advantage

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

Trust in co-operatives usually considered as one of the main advantages 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 producer-owned organisations are the following ones.

First, 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).

Second, *the social and informal network of members* or potential members is also relevant as a determining factor in decreasing transaction costs and in the process of establishing and the running of the activity of a co-operative. Better 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* (manage) for the organization of the co-operative.

Stryjan (1989) deals with *organisational consequences* of different membership and ownership issues in his seminal book, which also emphasises the human or “soft” side/way of organising activities and thus organisations.

Another advantage of the co-operatives are based on the *more closely and 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 co-operatives: selected empirical studies

4.2.1. Role of trust in case of producers’ organisation in developed countries

One of the most inspiring papers on trust-generating mechanism in co-operatives is by Borgen (2001). The author explores the trust-making mechanism in co-operatives 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, “another 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 to establish and develop the coherence in the organisation through loyalty and commitment. Naturally speaking 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 examining trust along two dimensions: cognitive and affective. They also “argue that cognitive and affective trust 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 and 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 (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 suggests that organizational trust and members' investment incentives can be competing interest; 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).

4.2.2. Trust issues in cases of producers' organisations in transitional countries

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, number of examples of co-operatives is still limited in countries like in Hungary, despite the fact that "...trust plays an important role for farmers to join a marketing cooperative in transition country" (Bakucs et al., 2007, 2008). One of possible explanation for this phenomenon is the lack of trust and willingness to co-operate among producers, as well as between farmers their business partners. (Bakucs et al., 2008). Analysing the most important causes to join to co-operative, Bakucs et al. find "...that the quantity, the existence of contract, flexibility and trust are the most important factor for farmers to selling their product via cooperative" (Bakucs et al., 2007: 15).

In a recent paper (Bakucs, L. Z., Fertő, I. and Szabó, G.G., 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 authors' knowledge, the above paper is the first to systematically investigate different type of trust among members of marketing co-operative and between members and management of a co-operative in a transition country. They focused on 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 by Hansen et al. (2002) which analyse the role of trust in cooperative performance.

Mórakert Purchasing and Service Co-operative was the first officially recognised Producers' Organisation (PO) in Hungary certified in 2002. The co-operative extended its membership and circle of suppliers (2000 in total in 2005) during the period of 1995-2007 and tried to involve more segments of the fruit and vegetable chain. The increase of both membership and the turnover of the co-operative demonstrate that the co-op was operating efficiently during the above period. The total net revenue of Mórakert co-op has reached the amount of HUF 8 billions in year 2007, which was very significant regarding the sector. However, years 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 is about 40 percentage of the one in similar period of 2008. They expect a turnover of about 4 billions in 2009, which is only half of the results in 2007. The main important problem are the ones connected liquidity: members do not trade their products to the co-operative, instead they try to sell them on spot (generally on grey and black markets) getting cash immediately.

While that way of short-term thinking and thus bypassing the co-operative route destroy the marketing channels of the co-op 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, similar to Hansen et al. (2002) findings, 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, L. Z. -Fertő, I. - Szabó, G.G., 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 their products (2 billions HUF) due to number of micro- and macro-level problems.

The president and the new managing director had to *personally talk with all the members one by one in order to ensure they vote* 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 trust of the members are secure markets and short-term payment for the products of farmers. *Financial solutions of the above liquidity problem* in July 2009 were coming from 4 sources: members' loan from the local authority (municipality), members' contribution in different ways, state intervention through DATÉSZ Zrt. 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 face with a number of liquidity problems, decreasing turnover and issues usually emerged 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.

In a recent Hungarian PhD. Thesis, analysing (ZÖLD-TERMÉK) Co-operative's role in coordinating fruit and vegetable producers, Dudás (2009) deals with trust issues as well. His survey was based on a questionnaire used by Bakucs etl. (2007, 2008). Dudás summarises his empirical results regarding the impact of trust on co-operative members' group cohesion, performance and satisfaction (emphasis in original):

"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 on the evolvement 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: p. 21.)

It would be very interesting to see some more 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 the *transition agriculture like in Hungarian fruit and vegetable sector* (Szabó, 2008b). There are a number of reasons why members have still loyalty to their co-op and trust on different levels is one of the most important causes. 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) examines 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: p. 23). The most important findings of the study regarding trust and opportunism are the followings:

“Members in both co-ops regarded trust and reciprocity as important element 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 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: p. 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 different 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 coops the trusts places in management indicated that leadership plays an important role in cooperatives.” (Forgács, 2006: p. 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: p.9)

It is important to stress the necessity of horizontal co-operation at this stage of Hungarian agricultural development. However, in certain cases vertical integration based on horizontal co-ordination can be also a good solution for producers, like in a case of Alföldi Tej Kft. (Alföldi

Milk Sales and Supply Ltd.) where the increase of suppliers' trust is one of the short-term aims of the producers' group (Szabó-Popovics 2009a,b).

The above mentioned empirical results can not 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. Trust and the roles of the so called co-operative principles ensuring it

5.1. The „Co-operative identity” concept¹

The concept of the “co-operative identity” (Szabó, 1995, 1997, 2006, 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.

The *elements of "co-operative identity"* are: the *definition, aims (purposes) and functions (roles)* of co-operative(s), and also the *co-operative principles*, which are also a major component of identity. This concept at first sight seems to be very similar to the new International Co-operative Alliance (ICA) Statement on Co-operative Identity (ICA, 1995), which "...includes a definition of co-operatives, a listing of the movement's key values, and a revised set of principles intended to guide co-operative organizations at the beginning of the twenty-first century" (MacPherson, 1994: p. 8).

However, there are some *very important differences between the two concepts*. *The first concept contains additional elements of the co-operative identity* (besides definition and principles): purposes (aim) and functions (roles). These elements are more relevant to the explanation of the economic substance of (agricultural) co-operation. Developments (changes) in practical economic life with respect to (marketing) co-operatives can be also discussed using these terms. Since, in the case of the ICA statement, only very general aims can be found (including in the definition) and there is nothing written about the functions which are subject to change over time, we have to conclude that the *ICA concept is not a sufficient basis for grasping the substance of co-operation* from economic aspect.

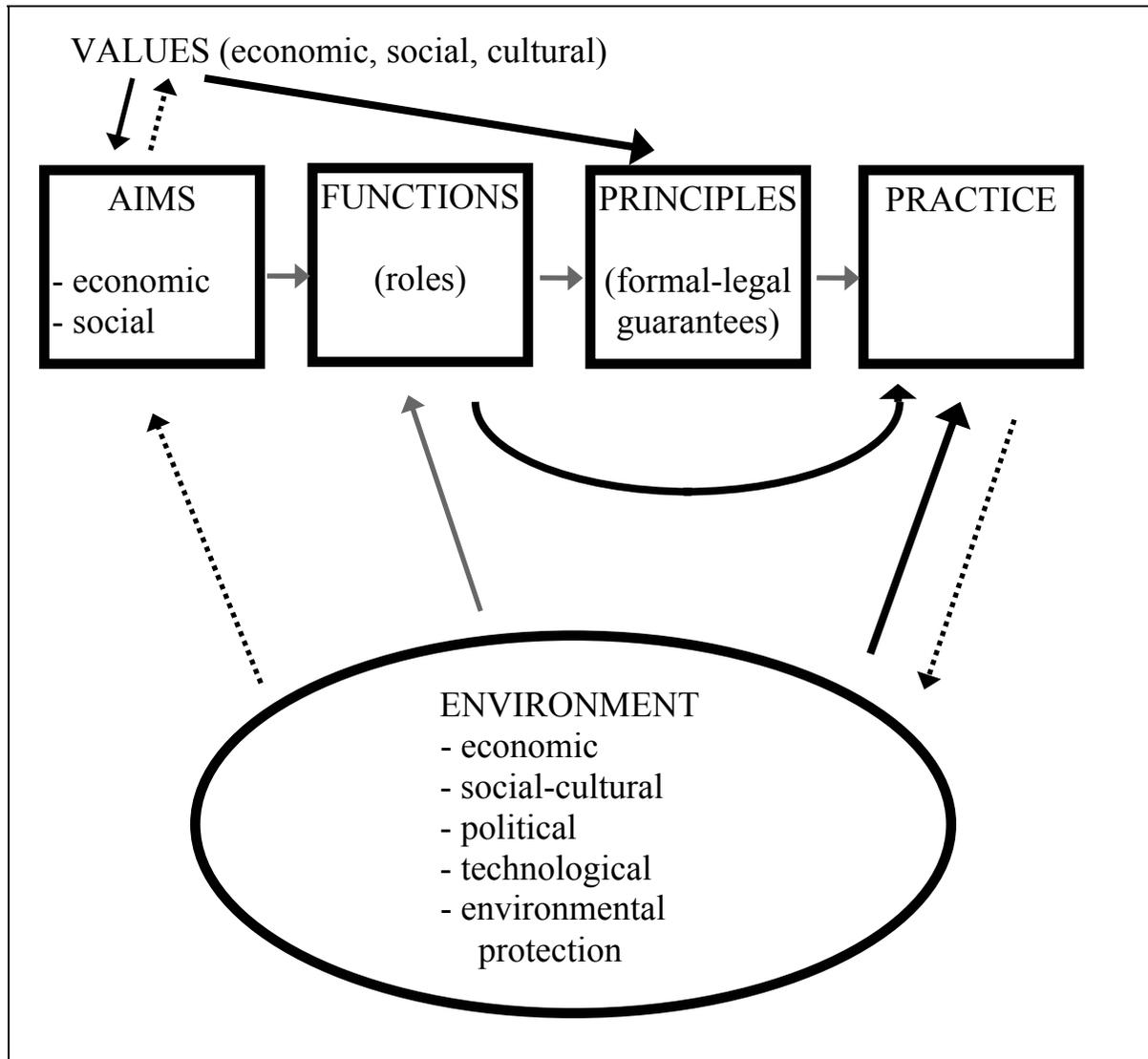
Secondly, in order to be able to carry out an analysis of the dynamics of practical co-operative life and development, the *aims (purposes) must be distinguished from the functions (roles)* of co-operatives. In the case of a solid co-operative identity, the initial main "co-operative" aims are largely fixed but the *functions of the co-operative are alter* over time, *in order to be able to fulfil their basic task*.

The main connections between the elements of the “co-operative identity”² and also their relations to the “mental” and the “real” environment can be seen in Figure 1.

¹ 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” (Szabó, 1995, 1997, 2006, 2008a).

² More detailed analyses of the concept and the main relations between various elements of the “co-operative identity” can be found in Szabó (1997, 2006, 2008).

Figure 1 Elements of the “Co-operative Identity” and their Relation



Source: Szabó, 1997, 2006, 2008

5.2. Significance and different sets of the co-operative principles

Although “co-operative identity” has involved some other aspects beside the principles, namely definition(s), aims, 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. They can prove that a co-operative is genuine one or not. 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, strait forward 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 – Saxena, 1984: vi)

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 this 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.

The performance or proportionality concept means, according to Diepenbeek (1989: p.38), that "...in the distribution of cost and proceeds of the cooperative amongst the members... an economic key is used, namely a distribution according to the economic principle of proportionality - at which the social key of personal need or social claims in redistribution of income is rejected." The proportionality concept (see Barton, 1989b: p. 31) can be considered a suitable starting-point for the analysis of co-operative identity and the developments currently in progress in European (for instance the Dutch) "practical" agricultural co-operation (van Diepenbeek, 1989: 38; van Dijk, 1994/1995).

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

5.3. Tree main lines of misinterpretation of the co-operative principles

It is necessary to outline some “dangers” with respect to co-operatives with no sound identity. There are three main lines of potential dangers, as shown in Figure 1 by black thick arrows. When the values by-pass the normal way of formulating co-operative activity (as can be seen in Figure 1 along the grey arrows), then there exist the danger that co-operative principles are being set without an examination of why they are indispensable guarantees. This type of misunderstanding can also be observed in the new ICA “Statement on the Co-operative Identity” (ICA, 1995). Neglect of real life economic analysis raises a question: whether it is worth formulating rules (principles) hanging in the air. Naturally, it is quite simple to establish a set of consistent principles based directly on some social, political, cultural values or ethics. But it is not at all certain that co-operatives following these kinds of principles will be viable ones and can survive in the rapidly changing environment. So it is probably better to follow the “grey line” (see the grey arrows from the “aims square” to the “practice square” in Figure1) on the path of formulating co-operative activity, as can be observed for example in the case of the Dutch system of agricultural co-operation.

Another dangerous by-pass occurs when the “principles module” is absent from the above “grey line” and functions shape directly the day-to-day practice of co-operatives. In this case there exist no formal-legal guarantee according to which it is clear whether an organisation is co-operative or not. Therefore, the co-operative principle or principles are indispensable to the proving of the genuine co-operative substance. But it must be taken into consideration that co-operative principles can alter according to each country, sectors, branches, etc.. Therefore every kind of co-operation can form its own set of principles. One possibility is to accept and use the co-operative principles stated by the International Co-operative Alliance, after setting an aim or aims and a function or functions. It is also possible that one kind of co-operation can actually use only one principle, as the Dutch agricultural co-operatives do (proportionality principle). But these types of formal-legal guarantees are essential to the distinguishing the Investment Oriented Firms (IOF) from the “co-operative type of business”.

Finally, it is necessary to analyse the third danger awaiting co-operatives in the rapidly changing world (see the thick black arrow from the environment to the “practice square” in Figure 1). So, there is a situation when there is nothing to do with “co-operative identity” (concept) at all. When elements of the environment, single or together, govern and conduct the every-day practice of co-operatives, there is no meaning if an organisation bears the name co-operative. This is because, when by-passing the normal route (see the grey arrows from the “aims square” to the “practice square” in Figure1), it is absolutely impossible to develop and save a sound co-operative identity. As the environment is changing day by day, ”practice” will actually respond without measuring changes which have been made with respect to the co-operative aims and functions. Principles will not serve as guarantees or will be totally absent. These types of action are very dangerous for any type of organisation, but are ultimately fatal for co-operatives. The three main dangers outlined above can be seen in Figure 1, indicated by thick black arrows.

5.4. Co-operative principles as formal-legal securities of trust in co-operatives

The organisational form and decision-making (control) mechanism of the co-operative and the so-called co-operative principles (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 problem³ (Hendrikse and Veerman, 2001b; Karantininis and Nielsen, 2004; Royer, 1999; Staatz, 1984) usually not as significant like in any other contractual relation between a farmer and Investment Oriented Firms (IOF). It is further argued in present paper that *information and some parts of the enforcement costs are lower in co-operatives* due to the special relations and bonds among members.

As mentioned earlier, beyond the economic advantages of co-operatives there are exist some *non-economic ones connected to member relations and co-operative principles*. Very important advantages of the co-operatives are based on the more closely and informal connection among the members and between members and co-operative. Røkholt (1999, 2000) distinguishes 4 types of member loyalty: power based, habit based, tradition based and solidarity based. These are 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, 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 from the point of flexible business activity*, especially in gaining more risk-bearing capital for more activities with higher added value. Moreover, *1 member – 1 vote principle* which was/is considered as cornerstone of proving whether a co-op a genuine or not, in case (e.g. in marketing type of co-operatives) is *not right from an economic point of view*. For example in case of a dairy co-op the member supplying much more milk to the co-operative processor does take much higher risk than another one with less milk to deliver and 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 carry out new (marketing) strategies of the co-ops and their members.

Multiple voting system, might be related for example to proportionality principle, with 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 10 or more times as much raw material (e.g. milk) to the co-operative than others then she or he would like to get higher 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 co-operative and it will lead to economic inefficiency* (occasionally to bankruptcy) or conversation to other, more secure and solid organisational forms, like ltd and public companies. The situation 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.

³ The *hold-up problem*, probably the most known example for ex post problem/cost, relevant in agriculture, “... arises when one party in contractual relationship seeks to exploit the other party’s vulnerability due to relationship-specific assets” (Royer 1999, p. 49). The hold-up problem is significant in the dairy and fruit-vegetable sectors, explaining the existence 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 its mind and force them to accept lower prices for their products otherwise terminate their contractual relation.

6. Conclusions

Because of the new, more market-oriented environment (e.g. more liberal agricultural policies, opening European and world market, etc.) *co-operative execute new marketing strategies and use new management techniques. In order to be able to grasp recent developments, a new, interdisciplinary research* (including contributions/intersections of the various fields of economics, law, marketing, financing, organisational studies, management sciences (“hard” sciences), and also some elements of philosophy, psychology, sociology etc. (“soft” disciplines) *is proposed*. In this paper New Institutional Economics’ theories, as well as the “co-operative identity” concept were used to analyse the role of co-operative principles in trust development.

Conversion process taking place nowadays in Europe and US *is a major challenge for co-operatives and probably more practical types of the new model(s) will emerge*. However, 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 relation, than *an organisation does act as a co-operative* despite the fact of its actual legal form.

From empirical point of view *conditions for successful collective marketing done by producer-owned organisations* can be summarised as follow (Szabó, 2009):

1. real economic necessity,
2. willingness to co-operate – demolition of mental/psychological barriers,
3. screening of potential members,
4. strict and exact quality and quantity requirements for products delivered to co-op/producers’ group,
5. consistent adherence of delivery obligations,
6. ensuring balanced (liquid) financing both short- and long-term,
7. trust between members and (co-operative) management, as well as among the members,
8. efficient and multi-way communication.

Mórákert Purchasing and Service Co-operative and some of the other organisations mentioned in the paper are *good examples for the vertical integration based on the horizontal coordination of farmers as initiators*. Despite recent liquidity problems, they also proves that by co-operation there is *an opportunity to significantly improve their countervailing power* and to *establish ownership for farmers in the upper part of the food chain* if they can secure *strict quality requirements, solid financing, loyalty and trust* in their organisations. 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*.

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 the transition agriculture like in Hungarian fruit and vegetable sector (Szabó, 2008b). There are a number of reasons why members have still loyalty to their co-op and trust on different levels is one of the most important causes. 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.

Co-operative principles can obstacles (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, as well 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.

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

Acknowledgements

Some parts of the research were supported by the Hungarian Scientific Research Fund, *OTKA* (Project No. F025983, No. F038082, No. T048779 and No. K68467), by the Ministry of Education FKFP (project no. 0505/2000), *OKTK* (Project No. A/0118/2004); as well as by *Bolyai János Research Scholarship* (2005-2008). A scholarship was also given by the *Hungarian Scholarship Board* (Magyar Ösztöndíj Bizottság) and sponsored by the Netherlands Organization for International Cooperation in Higher Education (NUFFIC). Appreciation is expressed to Gert van Dijk, Onno-Frank Bekkum, Kostas Karantininis, Mathew Gorton, Adrie Zwanenberg for their help and comments, as well as for the Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO) to financially support this research project. The help and collaboration on behalf of the staff of the NCR (NL), NICE (Nyenrode University, NL) and WUR (NL) was also very important.

References

- Bakucs, L. Z., Fertő, I. and Szabó, G. G. (2007). The Choice of Marketing Cooperative in a Transition Agriculture. Paper presented at I. Mediterranean Conference of Agro-Food Social Scientists, 103th EAAE Seminar in Barcelona, April 23-25, 2007.
- Bakucs, L. Z., Fertő, I. and Szabó, G. G. (2008). The Impact of Trust on Co-operative Membership Performance and Satisfaction in the Hungarian Horticulture. In: Csáki Csaba és Forgács Csaba (szerk): *Agricultural Economics and Transition: "What was expected, what we observed, the lessons learned. Studies on the Agricultural and Food Sector in Central and Eastern Europe Vol. 44.* Leibniz Insitute für Agrarentwicklung in Mittel and Osteurope, Halle, 2008, pp. 382-392.
- Barton, D. G. (1989a). What is a Cooperative? In Cobia, D. W. (ed.), *Cooperatives in Agriculture.* New Jersey: Prentice-Hall, Inc., 1-20.
- Barton, D.G. (1989b). Principles. In Cobia, D.W. (ed.). *Cooperatives in Agriculture.* New Jersey: Prentice-Hall, Inc., 21-34
- Belaya, V., T. Török, J. Hanf (2008). Recognizing the Links between Power and Trust in Managing Supply Chain Relationships. European Association of Agricultural Economists 2008 International Congress, August 26-29, 2008, Ghent, Belgium, pp. 1-4.
- Bijman, W.J.J. (1998): Internationalisation of European Dairy Companies: Strategies and Restrictions. In: Ziggers, G.W. – Trienekens, J.H. – Zuurbier, P.J.P. (eds.): *Proceedings of the third International Conference on Chain Management in Agribusiness and Food Industry* (Ede, 28-29 May 1998). Management Studies Group, Wageningen Agricultural University, May 1998, pp.769-779.

- Boon, A. (1998): Competencies and Internationalisation Strategies: The Case of the European Dairy Industry. In: Ziggers, G.W. – Trienekens, J.H. – Zuurbier, P.J.P. (eds.): Proceedings of the third International Conference on Chain Management in Agribusiness and Food Industry (Ede, 28-29 May 1998). Management Studies Group, Wageningen Agricultural University, May 1998, pp. 757-768.
- Borgen, S. O. (2001). Identification as a trust-generating mechanism in cooperatives. *Annals of Public and Cooperative Economics* 72, No. 2: 209-228.
- Böök, S.A. (1989). Co-operative Values, Principles and Identity before the Turn of the Century. A Discussion of a Project Approach. In *Co-operative Values and Relations between Co-operatives and the State Working Papers of a Seminar in New Delphi October 3-6, 1989*. New Delphi: The ICA Working Party and The ICA Regional Office, 207-246.
- Böök, S.A. (1992). Co-operative Values in a Changing World (Summary of the Report to the 1992 ICA Congress). In: XXXth Congress, Tokyo, October, 1992, *International Co-operative Alliance Agenda&Reports*. *Review of International Co-operation* 85, 2/3: 157-169.
- Bremmers, H.J., Omta, S.W.F., Trienekens J.H. and Wubben, E.F.M. (eds.) (2004). *Dynamics in Chains and Networks*. Wageningen: Wageningen Academic Publishers
- Cobia, D.W. (ed.) (1989). *Cooperatives in Agriculture*. New Jersey: Prentice-Hall, Inc.
- Cook, M. L. (1995). The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach. *American Journal of Agricultural Economics* 77: 1153-1159.
- Cook, M.L and Iliopoulos, C. (1998). Solutions to property rights constraints in producer-owned and controlled organizations: prerequisite for agri-chain leadership? In Ziggers, G.W. – Trienekens, J.H. – Zuurbier, P.J.P. (eds.): Proceedings of the Third International Conference on Chain Management in Agribusiness and the Food Industry. Ede. 28-29 May 1998, Management Studies Group, WAU, 541-552
- Craig, J.K. and Saxena, S.K. (1984). A Critical Assessment of the Co-operative Principles. *Co-operative College of Canada Working Papers Vol. 3, No.2*: 1-41
- Davis, P. (1995). *Co-operative Management and Co-operative Purpose: Values, Principles and Objectives for Co-operatives into the 21st Century*. Management Centre, University of Leicester, Discussion Papers in Management Studies No. 95/1, January 1995
- Dudás, Gy. (2009). Producer organisations' (POs') prospects of coordinating fruit and vegetable producers, illustrated through the example of 'ZÖLD-TERMÉK' Cooperative. Unpublished Summary of the Ph.D. Thesis. Szent István University, Management and Business Administration Doctoral School, Gödöllő, Hungary, pp.1-23.
- Fairbairn, B. (2008): Communications, Culture, and Co-operatives: Liminal Organizations in a Liminal Age. In: Ian MacPherson and Erin McLaughlin-Jenkins: *Integrating Diversities within a Complex Heritage. Essays in the Field of Co-operative Studies. Series of Co-operative Studies, Vol 2*. New Rochdale Press: BC Institute for Co-operative Studies, University of Victoria, Victoria BC, , pp. 179-222.
- Fertő, I., Szabó, G.G. (2002a), The Choice of the Supply Channels in Hungarian Fruit and Vegetable Sector. Paper presented at the *Annual Meeting of the American Agricultural Economics Association in Long Beach, July 5-8, 2002*
- Fertő, I., Szabó, G.G. (2002b), *Vertical Co-Ordination in Transition Agriculture: a Hungarian Co-Operative Case Study*. Budapest: MTA KTK, Discussion Papers (New Series), MT-DP 10., 2002. 1-24 (<http://econ.core.hu/doc/dp/dp/mtdp0210.pdf>)

- Forgács, Cs. (2006). Leadership and the importance of social capital in the transition of cooperatives. A case study of two cooperatives. *Studies in Agricultural Economics*, No. 105., pp. 23-38.
- Galbraith, J.K. (1963). *American Capitalism. The Concept of Countervailing Power*. Penguin Books in association with Hamish Hamilton. (First published in the U.S.A. 1952)
- Hakelius, K. (1996). *Cooperative Values – Farmers’ Cooperatives in the Minds of the Farmers*. Uppsala: Swedish University of Agricultural Sciences, Dissertations 23
- Hansen M.H., Morrow Jr. J.L, and Batista, J.C. (2002). The Impact of trust on cooperative member retention, performance and satisfaction: an exploratory study, *International Food and Agribusiness Management Review*, Vol. 5 (2002), pp. 41-59.
- Harte, N. L. (1997). Creeping Privatisation of Irish Cooperatives: A Transaction Cost Explanation. In Nilsson, J. and Van Dijk, G. (eds), *Strategies and Structures in the Agro-Food Industries*. Assen: Van Gorcum, 31-53.
- Hendrikse, G.W.J. and Veerman, C.P. (2001a). Marketing Co-operatives: An Incomplete Contracting Perspective. *Journal of Agricultural Economics* 52: 53-64.
- Hendrikse, G.W.J. and Veerman, C.P. (2001b). Marketing co-operatives and financial structure: a transaction costs economic analysis. *Agricultural Economics* 26: 205-216.
- Helder, J.J. (2000): The role of local co-operatives and their interest in international collaboration. (Internationalisation of the co-operative: footloose or rootloose?). “ICA Regional Assembly for Europe”, Working group I: “Concentration and cross-border co-operation”, 4 October 2000, Bratislava, NCR, August 2000, pp. 1-4 (Manuscript)
- Hódi, P. (2009), *Interview* (President of Board of Directors of Mórakert Co-operative), July 2009. (in Hungarian)
- ICA (1995). The International Co-operative Alliance Statement on Co-operative Identity. *Review of International Co-operation* 88, 3: 3-4
- James, H.S. Jr., Sykuta, M.E. (2005). Property Right and Organizational Characteristics of Producer-Owned Firms and Organizational Trust. *Annals of Public and Cooperative Economics*, Vol. 76: 2, pp. 545-580
- Jones, D.C. and Kalmi, P. (2009). Trust, inequality and the size of the co-operative sector: cross-country evidence. *Annals of Public and Cooperative Economics* 80, No. 2, pp. 165-195.
- Karantininis, K. and Nielsen, T.V. (2004). The hold-up problem in “code of practice” by farmer cooperatives. Paper presented at the Conference Vertical Markets and Cooperative Hierarchies: The Role of Cooperatives in the International Agri-Food Industry. M.A.I.Ch., Chania, Greece 3-7 September 2004. (manuscript, 1-36)
- Kyriakopoulos, K. (2000). *The Market Orientation of Cooperative Organizations*. Assen: Van Gorcum.
- LEI-DLO (1995): Recent and future developments in the Dutch dairy chain. *LEI-DLO, Mededeling* 521, January 1995, 32-37
- McAllister, D. J. (1995). Affect- and cognitive-based trust as foundations for interpersonal cooperation in organizations. *Academy of Management Journal*, 38, 24–59.
- MacPherson, I. (1994). The Co-operative Identity in the Twenty-First Century. A background paper. *Review of International Co-operation* 87, No.3: 8-26
- Meulenbergh, M.T.G. (1997). Evolution of agricultural marketing institutions: a channel approach. In: Wierenga, B., van Tilburg, A., Grunert, K., Steenkamp, J-B. E.M. and Wedel, M. (eds), *Agricultural Marketing and Consumer Behavior in a Changing World*. Dordrecht: Kluwer Academic Publishers, 95-108.

- Meulenberg, M.T.G. (2000). Voluntary marketing institutions in food marketing systems. In van Tilburg, A., Moll, H.A.J. and Kuyvenhoven, A. (eds), *Agricultural Markets beyond Liberalization*. Dordrecht: Kluwer Academic Publishers, 213-233.
- NCR (1993). *Agricultural and Horticultural Co-operatives in the Netherlands*, Nationale Coöperatieve Raad voor land- en tuinbouw (NCR), Rijswijk, July 1993
- Nilsson, J. (1997). New Generation Farmer Co-ops. *Review of International Co-operation* 90, No. 1: 32-38.
- Nilsson, J. (1998a). "Agency Theoretical Problems in Cooperatives," *International Cooperatives Research Conference: "Values and Adding Value in a Global Context"*, 13-17 May, Cork, Ireland.
- Nilsson, J. (1998b). The Emergence of New Organisational Models for Agricultural Co-operatives. *Swedish Journal of Agricultural Research* 28: 39-47.
- Ollila, P. (1989). Coordination of supply and demand in the dairy marketing system with special emphasis on the potential role of farmer cooperatives as coordinating institutions. *Journal of Agricultural Science in Finland* 61, No. 3: 143-321.
- Ollila, P. (1994). Farmers' cooperatives as Market Coordinating Institutions. *Annals of Public and Cooperative Economics* 65, No. 1: 81-102.
- Ollila, P. and Nilsson, J. (1997). The Position of Agricultural Cooperatives in the Changing Food Industry of Europe. In Nilsson, J. and van Dijk, G. (eds), *Strategies and Structures in the Agro-Food Industries*, Assen: Van Gorcum, 131-150.
- Oxford Advanced Learners' Dictionary (2005): Trust. 7th Edition, pp.1645-1646.
- Poppe, K.J. (1993). Financing in Western European Agriculture: A Comparative Perspective. In: Silvis, H.J. (ed.). *Capital and Finance in Western and Eastern European Agriculture*, Wageningen Agricultural University, 13-55
- Royer, J.S. (1999). Co-operative Organisational Strategies: A Neo-Institutional Digest. *Journal of Cooperatives* 14: 44-67.
- Røkholt, P.O. (1999). Strengths and weaknesses of the co-operative form; A Matter of Perspective and Opinion. Paper presented at the ICA International Research Conference, Quebec, 28-29 August 1999 (manuscript)
- Røkholt, P.O. (2000). Co-operative adaptation – Eliminating Weaknesses or Utilizing Strengths? *Review of International Co-operation*, 92-93, No. 4/99 – 1/00: 64-72.
- Sodano, V (2002). Trust, economic performance and the food system: can trust lead up to unwanted results? In: J.H. Trienekens and S.W.F. Omta (Eds.): *Paradoxes in Food Chains and Networks*. Proceedings of the 5th International Conference on Chain and Network Management in Agribusiness and the Food industry. Wageningen University, 2002, pp. 104-115.
- Spear, R. (1999). The Co-operative Advantage. "ICA European Research Conference on Continuity, Transition and Renewal: New Trends in European Cooperation". Weimar, October, 1999, 1-12 (manuscript)
- Staatz, J.M. (1984). *A Theoretical Perspective on the Behaviour of Farmers' Cooperatives*. Michigan State University, Ph.D. Dissertation.
- Stryjan, Y. (1989). *Impossible Organizations. Self-Management and Organizational Reproduction*. Contributions in Sociology, Number 83. Westport, Connecticut: Greenwood Press.
- Sykuta, M.E. and Cook, M.L. (2001). A New Institutional Economics Approach to Contracts and Cooperatives. *American Journal of Agricultural Economics* 83: 1273-1279.

- Szabó, G. G. (1995). Co-operative Identity in Hungary and Europe (Principles and Roles of Agricultural Co-operation). In Proceedings of the 41st EAAE Seminar (Gödöllő, Hungary, September 6-8, 1995) on "Challenge and Strategies for Re-establishing East-Central European Agricultures", Gödöllő: Gödöllő Agricultural University Press, 221-226
- Szabó, G.G. (1997): Usefulness and possibilities of using the „co-operative identity” concept in economic analysis of co-operatives. *Acta Agraria Kaposváriensis* 1, No.1: 67-79. (Downloadable: <http://www.kaposvar.pate.hu/PDF/VOL1NO1/13Szabo.pdf>)
- Szabó, G. G. (2002). New institutional economics and agricultural co-operatives: a Hungarian case study. In: Karafolas, S., Spear, R. and Yohanan Stryjan (eds), *Local Society & Global Economy: The Role of Co-operatives*. Naoussa: Editions Hellin, ICA International Research Conference, 2002, 357-378
- Szabó, G.G. (2006). "Co-operative identity"- a concept for economic analysis and evaluation of co-operative flexibility: The Dutch practice and the Hungarian reality in the dairy sector. *Journal of Co-operative Studies*, Vol. 39, No. 3, pp. 11-26
- Szabó, G.G. (2008a): “Co-operative Identity” – a Theoretical Concept for Economic Analysis of the Dynamics of Practical Co-operation. In: Ian MacPherson and Erin McLaughlin-Jenkins: *Integrating Diversities within a Complex Heritage. Essays in the Field of Co-operative Studies*. Series of Copoerative Studies, Vol 2. New Rochdale Press: BC Institute for Co-operative Studies, University of Victoria, Victoria BC. , pp. 81-108
- Szabó, G.G. (2008b): Human factor considerations regarding the competitiveness of marketing co-operatives: case of the Hungarian Mórakert Co-operative. 27th International Congress of CIRIEC, Sevilla, Spain, 22-24 September 2008. CD-Rom, CIRIEC Espana, ISBN: 978-84-95003-67-6. pp. 1-11.
- Szabó, G.G. (2009): Successful Producer Owned Marketing Organisations in a Transition Country: Two Case Studies from Hungarian Agribusiness. Paper presented at the 113th EAAE Seminar: A resilient European food industry and food chain in a challenging world. Mediterranean Agronomic Institute of Chania (MaICh), Chania, Crete, Greece, September-23, 2009, pp. 1-15 (manuscript)
- Szabó G. G., Bárdos, K. (2006). Contracts in agribusiness: A survey in the Hungarian dairy sector. In: Bijman, J. – Omta, S.W.F. – Trinekens, J.H. – Wijnands – Wubben, E.F.M. (eds.): *International agri-food chains and networks. Management and organization*. Wageningen Academic Publishers, Wageningen, the Netherlands, pp. 65-80.
- Szabó, G.G., Kiss, A. (2007), *Economic substance and legal regulation of producers' organisations in the Hungarian fruit and vegetable sector*. In: Chaves, R., Monzón, J.L., Stryjan, Y., Spear, R., Karafolas, S. (Eds.): *The future of co-operatives in a growing Europe*. Ciriec Espana – Universitat de València, 2007, pp. 663-681.
- Szabó, G.G. , Popovics, P. (2009a), Possible Ways of Market Coordination and Integration in the Hungarian Dairy Sector. *Journal of Rural Cooperation*, Vol. 37, No.1, pp. 32-51.
- Szabó, G.G. , Popovics, P. (2009b), Analyses of Private Market Coordination Mechanisms in the Hungarian Dairy Sector. Paper for the 19th Annual Food and Agribusiness World Forum and Symposium. Budapest, Hungary, June 20-23, 2009, pp. 1-20.
- Szabó, G.G., Török, T. and Hanf, J.H. (2009). Co-operative principles – as a basis and safeguards of trust development in agricultural co-operative marketing and management. EMNet 2009: 4th International Conference on Economics and Management of Networks University of Sarajevo School of Economics and Business, September 3 to September 5, 2009, pp. 1-22 (manuscript)

- Török, T. and Hanf, J.H. (2009). Is Trust Necessary in Supply Chain Networks? First Impressions of Hungarian Examples. Presented in 19th Annual World Forum & Symposium "Global Challenges, Local Solutions" 20.06.2009 - 23.06.2009, Budapest, Hungary, pp. 1-15. Available: http://www.ifama.org/library.asp?collection=2009_budapest&volume=symposium/1220_paper.pdf
- van Bekkum, O. F. and Van Dijk, G. (eds) (1997). *Agricultural Cooperatives in the European Union*. Assen: Van Gorcum.
- van Bekkum, O. F. (2001). *Cooperative Models and Farm Policy Reform*. Assen: Van Gorcum.
- van Bekkum, O. F. and Nilsson, J. (2000a): *Agenda 2000 and Structural Change in European Dairy Cooperatives*. In: . In: Trienekens, J.H. and Zuurbier, P.J.P. (eds.): *Proceedings of the Fourth International Conference on Chain Management in Agribusiness and Food Industry* (Ede, 25-26 May 2000). Management Studies Group, Wageningen University, May 2000, pp.97-105
- van Bekkum, O. F. and Nilsson, J. (2000b): *Liberalization of International Dairy Markets and the Structural Reform of European Dairy Cooperatives*. Paper presented to the Agribusiness Forum of the International Food and Agribusiness management Association (IAMA), "Consumers, Technology and Environment: Creating Opportunity and Managing Risk", Chicago, June 24-28, 2000.
- van Diepenbeek, W.J.J. (1989). *The Dutch Cooperative Concept: A Solid Base for Dutch Family Farming*. In *Agriculture and Rural Areas, Revue CICA*, July 1989: 35-41
- van Dijk, G. (1994/1995). Interviews and personal communications.
- van Dijk, G. (1997). *Implementing the Sixth Reason for Co-operation: New Generation Cooperatives in Agribusiness*. In Nilsson, J. and van Dijk, G. (eds), *Strategies and Structures in the Agro-food Industries*. Assen: Van Gorcum.
- van Dijk, G. and Veerman, C.P. (1990): *The philosophy and the practice of Dutch Co-operative marketing*. Paper presented at the Workshop on International Marketing, University of Jerusalem, June 1990
- van Dijk, G., Mackel, C. J. and Poppe, K. J. (1993). *Finance and management strategies of agricultural cooperatives. Aspects of the debate in the Netherlands*. Proceedings ICOS-conference on cooperative financing, Dublin, 1-12 (Manuscript)
- van Dijk, G. and Mackel, C. J. (1994). *A New Era for Co-operatives in the European Agro-Food Industries*. In: *The World of Co-operative Enterprise 1994. Celebratory Edition*. Rochdale Pioneers - 150 Years. The Plunkett Foundation, Oxford, 75-85
- Valentinov, V. and Curtiss, J. (2005). *Towards a Transaction Cost Theory of Organizational Change in Transitional Agriculture*. *Eastern European Economics*, Vol. 43, no. 5, September-October 2005, pp. 25-45.
- Vitaliano, P. (1983). "Cooperative Enterprise: Alternative Conceptual Basis for Analyzing a Complex Institution," *American Journal of Agricultural Economics*, 65, 1078-1083.
- Wilson, P.N. (2000). *Social capital, trust, and the agribusiness economics*. *Journal of Agricultural and Resource Economics*, 25, Nr. 1., pp 1-13.
- Williamson, O.E. (1993). *Calculativeness, trust, and economic organization*, *Journal of Law and Economics* 36, pp. 453-486.
- Zwanenberg, A. (1993): *The Complications of Financing Dairy Cooperatives*. Paper for The 32nd EAAE-seminar: *Capital and Finance in West- and East-European Agriculture*, March 22-23, 1993, Wageningen, the Netherlands
- Zwanenberg, A. (1995). Interview and personal communication.