

# HUMAN FACTOR CONSIDERATIONS REGARDING THE COMPETITIVENESS OF MARKETING CO-OPERATIVES: CASE OF THE HUNGARIAN MÓRAKERT CO-OPERATIVE



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## Abstract

- The main aim of the project: **analyse** producers' organisations **from an interdisciplinary approach**.
- In the first part of the paper we show briefly **theoretical considerations regarding the co-ordination/integration aspects of marketing co-ops** using New Institutional Economics (NIE) literature, including **several non-economic reasons and considerations**
- A **case study** on the development, marketing, financing and services of the very successful **Hungarian Mórákert Purchasing and Service Co-operative** supplements the theoretical analyses.
- The case study emphasises the **significance of human factors in the success** of the examined co-operative.

## Introduction: motivation, aims and methods

### Starting point

Different retail chains gain progressively larger share of Hungarian fruit and vegetable market

### Two main goals

- 1) to show **economic and non-economic advantages** of producers' organisations (POs)
- 2) to examine the **integration role of Mórákert Purchasing and Service Co-operative** in the Hungarian fruit and vegetable sector with **special emphasis on human factor** consideration

### Main methods

- 1) NIE and agribusiness literature review,
- 2) collecting secondary (statistical) data,
- 3) interviews and
- 4) case study analysis

## Economic and non-economic advantages of co-operatives

### Economic roles

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

### Non-economic advantages

- Organised **trust**
- Social and informal network** of (potential) members
- Better knowledge and confidence** among members
- More close and informal connections, **hold-up problem less significant**

## Case study on the Hungarian Mórákert Co-operative

**Table 1: Main data on the Mórákert co-operative concerning years 1998-2005**

Year	Agricultural net revenue (in 1,000 HUF)	Total net revenue (in 1,000 HUF)	Share of agricultural and total revenues per cent	Number of members	Equity of share capital (in 1,000 HUF)	Number of business partners	Share of own and foreign equity	Turnover (t)
1998	250837	251410	99.77	59	1300	400	74.37	
1999	566775	567810	99.81	131	1300	500	53.91	
2000	1248737	1250464	99.86	189	1300	600	45.53	12500
2001	1584329	1586604	99.86	288	11275	1000	52.69	14961
2002	2281186	2282966	99.92	289	11275	1500	69.86	22620
2003	3639094	3777771	96.33	476	11275	2000	78.62	30359
2004	4078642	4641618	93.94	630	80920	2500	53.05	38541
2005	5166380	5839921	88.47	699	118830	3000	42.11	37294

Source: Mórákert Co-operative, 2006

## Marketing

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

## Services for producers

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

## Human factor considerations

### New Institutional Economics considerations

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

### Regarding staff and management

- Too fast** development?!
- The staff and management is **under pressure**
- There is **no human resource manager**
- Fluctuating working force**

### Regarding members

- Heterogeneity of members** – **different interest:**
  - Big farmers: do like and able to invest
  - Small farmers: do not like and/or not able to invest

### Trust

- among the members** and
- between members and the management**

### Problems

- Members are **only interested in business**
- By-passing** the co-operative: selling on spot market
- Contract enforcement is weak:** exclusion of members – very rare

## Conclusions

**Problems of farmers cannot be solved simply by EU and/or government support**

**Such organisations**, like the Mórákert co-op can be a **solution for farmers** to cope with their **problems arising from incomplete pricing mechanisms** and to **reduce transaction costs**, at least at the regional level.

**Main reason of success of the case study co-operative:**

- Economic success:** growth in number of members and turnover as well
- Successful marketing activities**
- Members' trust** in co-operative (board and management)
- Employees/management commitment** to the managing director

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