Leadership may have decisive influence on successful transition of production type cooperative

Case study, Hungary

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1. Introduction and Problem Statement

Most of Central East-European countries have had large scale farm system over decades which arrived to the milestone of reforms moving towards market system at the beginning of the nineties of the twentieth century. Concerning Gross Agricultural Output (GAO) Hungarian agriculture had three major pillars as agricultural cooperatives (some 48-50 %), household production (mostly by coop members, 30-33 %) and state farms (app. 17-18 %) that time. After the political turn members of cooperatives had to make their mind up how to proceed: whether to follow the traditional way of farming after the coop being transferred or leaving the coop and starting individual farming with the option of establishing new cooperation.

Two major lines of cooperation will be evaluated. At the beginning of the 90s not too many coops within the agricultural sub-sector were broken up, but more after coming years. However, at national level some 7-10 % of coop members decided to leave the coop. The average size of farming area of new individual farmers was 2-3 ha in average increased over time by mainly leasing and less extent by buying additional land.

In many cases small farmers after having tasted the freedom of farming thought they could manage a successful performance on their own way and have not been willing to cooperate. Market failures have taught them to take the advantage of cooperation by using economics of scale and by sharing risks. On the other side, a number of the traditional producers’ coops had been successful in pre-reform period and their members did not want the split up the coop, rather to maintain cooperation and improve economic performance under market conditions.

Both coops under investigation have had different way of development and achieved good economic results during the transition period, although, both of them still are struggling how to adjust to the new economic environment where competition is a very strong motivation factor.

The case study based on research in literature and interviews. Field work was done in the traditional producers’ cooperative, Coop „BÉKE” and for comparison in a newly established Purchasing and Marketing Cooperative „HAJDÚ GAZDÁK” (PMCHG). Both coops are located in town Hajdúböszörmény having 32000 inhabitants, Hajdú-Bihar County, Eastern part of the country.

The research gives an insight into the motivations of individual farmers as well as that of coop members and underlines those factors which push individual farmers to cooperate by establishing marketing coop on the one hand and, members of traditional coops to choose the way of maintaining cooperation and to adjust this way on the other.

The analysis comprises of a brief history of coop activities and coop development as well as interviews with the directors of the two coops. PMCHG has a young director while coop “BÉKE” has been directed by a more experienced specialist taking his position for 15 years. In addition, based on standardized questionnaire, another 5 coop members in each coop were asked to talk about their views and attitudes towards cooperation. In case of PMCHG it meant 10% representation of total membership. The latter is much lower in case of Coop “BÉKE”. However, the latter has been in operation for more than half century so opinion of people is very much balanced and, besides the 1500 square meter member cultivated land area all other fields are jointly used which also indicates that evaluation of individual members on coop performance is not so much widespread as from the higher number of coop membership one would expect. Besides that relevant documents and observations were also used to complete the case study. Taking into account these factors, results gained by analyzing documents, questionnaires and leaders’ statements conclusions of the case study are reasonably backed by every day experience of members.
In second part the objective of the case study and the hypotheses will be described. In the third section an insight will be given to the establishment and performance of both coops. The fourth section deals with methodology and analytical framework including the role of leadership in cooperation. In the next section the visual presentation of the actors and their interactions will be focused on. Section six discusses how people tried to improve social capital under different institutional background. Finally, findings on social capital in the two different coops will be summarized.

2. Objective of the Case Study and Hypotheses

Following World War II the first wave of organizing coops started in Hungary in 1949. Coops and state farms have operated under tough economic conditions. The revolution in 1956 gave an end to the compulsory delivery system of agricultural products and the latter was replaced by a new one based on contracts between farms and purchasing companies. A new economic system was put into force in agriculture in 1967 when price setting, taxation and wage control became major tools of agricultural policy to regulate supply and demand. Household production of agricultural coop members (0.25-0.5 hectares per member) has been a national characteristic since the collectivization period ended in 1961. In later years pressure by agricultural policy was given to coops and state farms to merge resulting in a large farms system. Coops have established and maintained deep cooperation with households based on distribution of labor where crop production was mainly accommodated by the coop and labor intensive animal production by mostly households. The coop-household cooperation has worked very well in the seventies and early eighties.

2.1. Radical reforms and the choice where to go ahead?

Political changes taken in early 90s has changed the political and economic environment of agricultural sector in a great extent. The new government emphasized the followings as key pillars of Agricultural Policy (AP):

a. “the country has to have a internationally competitive agriculture,

b. subsidies should be reduced to a much lower level and,

c. similar to EU case, family farm structure has to be supported to becoming prevailing.”

To support establishing new family farms a political decision was made. Only in case of land there was a possibility to claim the land area owned by individuals in 1949 back in physical term. Four laws on compensation passed supported this policy to become true. Due to the four laws executed some

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3 The Parliament passed a law on partial restitution (XXVth Law (1991)) covering all kinds of assets destroyed, partially destroyed or taken over by the state. This law was followed by four others (XXIVth Law of1992, XXXIInd Law of 1992, IInd Law of 1994 and XXXIIIrd Law of 1997) all dealing with compensation. People whose ownership was damaged by the laws released after May 1, 1939 and listed in the annex and ownership damaged by the laws released after June 8th, 1948 and listed in the annex of the law (XXVth Law (1991)) had to be compensated. The amount of the compensation was determined on a regressive scale.
additional 1,5 million landowners with 1,5-2,0 hectares in average besides the existing some 1 million landowners have been appeared changing the land ownership fundamentally.

2.2. New institutional framework for marketing the products

To see what has been left from the old regime helping small farmers to access markets the following decisive factors have to be underlined:

a. Local markets existed and accepted limited supply only.
b. The earlier well functioning General Consumer and Marketing Cooperatives (GCMC) mostly disappeared.
c. Number of new middlemen agents occurred and started business in the vertical chains.
d. Producers’ coops found no ethical responsibility any more for taking care marketing of products from small individual farmers.
e. No former procurement and processing companies were obliged to do procurement of agricultural products any more.
f. Social capital was heavily destroyed before building up a new competitive distribution system.
g. To establish a new system starting from the bottom up needed more time and resources.

New private farmers found themselves in a difficult market situation after radical reforms. Because some of new market players cheated producers by promising too much for raw materials but giving less when delivered.

Concerning the institutional aspect of the distribution system there have been several institutions dealing with establishing an environment for smooth market performance. Under the Ministry of Agriculture and Rural Development (MoARD) the following agencies helped market transactions:

a. Office of Agricultural Market Regime established by law and dealt with regulating agricultural markets, intervention issues, actions connected with exports.
b. Center of Agricultural Intervention named later on as Office of Agriculture and Rural Development (paying institutions). It was responsible for managing the execution of accepting applications from and making the payments to the farms.
c. Product Councils (PCs): established by involving producers, processors, traders and consumers of selected products or group of products. At least two third of market players in the chain has to be represented. The Minister of MoARD authorized the PCs. The main role of PCs is coordinating the activities of given marketing channels.
d. Producers’ Organizations (PO): PO is a privately organized group of producers setting up rules on joint marketing the products covered by PO. Members have to pay a fee of membership and are obliged to sell their selected products totally through PO and, at the same time are eligible to get EU subsidies through PO. E.g. in fruits and vegetable production individual farmers on their own are not eligible to get EU subsidies.

In addition to above listed institutions there have been some other agencies which have been involved in representing the interests of agricultural producers e.g. Agricultural Chamber (at county and national level), National Federation of Agricultural Producers and Co-operators (NFAPC), National Federation of Farmers (NFF) etc. The former two had existed for a long time while the latter founded after political turn.
2.3. Agricultural coops and their social function during the socialist area

Coops – besides their economic function – also have played very important role as social units in order to meet the needs of local people in the field of social and cultural services. One example is patronage, – each coop in town had one school where different services were delivered by the coop for the school, free of charge or maximum at cost level. Most of such services dealt with cultural events. Such events constituted civic engagement, in Putnam’s (1993) construct of social capital. In addition to their economic function, coops played a very important role in organizing and supporting local social and cultural life.

2.4. Transformation of production type coops

In 1992 a law was passed on how coops were to be transformed to meet new requirements within a short period of time. During transformation there was a possibility for any coop member to leave the coop as individual or as a member of a group if they wanted. Some 10-12% (close to that at national level) of coop members in town of Hajdúböszörmény decided to start farming by running family farm or working in other partnerships.

By transformation of coops three major groups of landowners have appeared: First, those people who were really engaged in agricultural production and wanted to continue farming. Second, retired people who were still members of the coops but have not been involved in every day activities any more. Third, group of people consisted of new landowners having a job somewhere in the town nearby or further on and got the land back by law.

During the compensation besides the land production means (machines, other tools etc.) were also distributed among original landowners and coop members. However, coops had not sufficient financial resources to pay out all those who wanted to sell their business shares. Increasing part of business shares were in the hand of pensioners but not having strong control over the coop management which has generated conflicts of interests and resulting in a confusion situation which has not been totally solved until now.

Success of restructuring agricultural coops very much depended on expertise of leaders on one hand and the trust of members to their leaders on the other to solve this problem of resource coordination.

2.5. Research hypotheses

The following research hypotheses were formulated:

Hypothesis 1: “Where trust in formal institutions is low, high transaction costs are experienced in dealing with the State and, actors will rely on informal institutions to solve their problems of collective action.”

Hypothesis 2: The more frequent and complete the communication between agents, the greater the cooperation.

Hypothesis 3: Reducing transaction costs generates changes in governance structure.

Hypotheses 4: Prior to reforms social capital in CEE countries was low.

Hypotheses 5: Although, market is based on competitive forces, a network of cooperation is nevertheless required for its sustenance.
3. Unit of analysis

In this section historical development of two coops will be briefly discussed.

3.1. The case of transformation of coops in Hajdúböszörmény

Five coops have existed in town, their breaking up started later and the process of it was slow in comparison with the national average. Private farming was not attractive for most of the coop members. Economic environment has changed a lot. By two case studies it will be showed how social capital, after destroying the old distribution system, could contribute to improve and maintain cooperation to help members and small farmers to support their access to markets by working together.

3.2. Brief history and the challenge of Coop „BÉKE”, Hajdúböszörmény

Coop „BÉKE” The coop was founded on June 27, 1955 by the poorest peasants living in town and celebrated its 50 year anniversary in 2005. The 39 founders had in total only some 73 ha agricultural land but within half year time more and more people decided to join expanding the cultivated area by almost eight times to 570 ha (MÓNUS, 1999). The financial status of members has had an impact on the whole fifty year performance of the coop and on the attitude of coop members towards cooperation. Apart from initial difficulties in coop farming members have realized that they have been better off in compare with individual farmers or, what they have been able to achieve as individual farmer or as hired labor if not having land ownership. The slowly, but steadily increasing standard of living provided by coop has been a strong argument for members on advantages of coop farming.

3.2.1. The new area of coop development

The year 1960 was a milestone in the history of the Coop „BÉKE”. Both the number of coop members and the cultivated area have been increased significantly. However, concerning economic results of coop performance severe problems occurred. Cost-benefits approach was not recognized as important tools for economic evaluation. It was thought that sufficient economic results would be realised at the end of the year, however, it was recognized there were need for more educated people in the management. The new president elected in 1963 invited more specialists to come and work for the coop. Besides, huge investments have been made both in crop production and animal husbandry during the sixties and seventies.

3.2.2. Farming in a mixed centrally planned and market economy

Since launching the new economic system in 1967, economic incentives facilitating agricultural production have replaced directives given to both state and cooperative farms as happened previously. Procurement prices were increased, however they were still below market prices. Farms were interested in producing profits and that was the source of increasing wages but the latter was still being

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4 Discription of history of Coop „BEKE” is based on MÓNUS (1999).
kept under severe state control by implying tough tax conditions for outstanding wage increases. Most of the loans which had been accumulated in coops were canceled providing an empty sheet for future development.

Due to enlarged size of production the system of corporate governance of the coop was changed and a matrix governance system was introduced in 1978. During the decades the coop has improved its performance and took its position into the frontline of farming at national level. Several occasions the coop won the award of “Coop of Excellence.

### 3.2.3. Coop activities following radical reforms

Coops have gone through difficult period as agricultural policy focused on establishing family farms instead of modernizing the coops and state farms. A number of agricultural coops were broken up and coops of smaller size were organized, besides them some of the coops have disappeared. Land cultivated by coops has declined. In 1992 1441 agricultural coops cultivated some two third of agricultural areas. The latter amounted to 28.3 % in 1996 and 18.0 % in 2000.5 Tóth (2000) analyzed the adjustment process of agricultural coops in Hungary in the nineties pointing out the major challenges as restructuring and downsizing coops faced that time.6 However, Coop “BÉKE” has expanded its activities and enlarged cultivated areas.

Taking the opportunity given by the law a decision on radical reforms was passed by the coop leadership headed by the new president. The idea was based on the recognition if something is backed by law and will become private ownership nobody can take it back.

After analyzing the situation and taking into account different perspectives of coop and individual farming the president decided to follow an offensive policy and began discussions with members in general and with those who were thinking about leaving the coop especially.

Leaders spent a lot of time to organize meetings one after the other and discussed the situation with all members and wanted to make people understood what was the essence of the new situation. As a result finally only 64 out of 960 members (some 7 %) decided to leave the coop and have taken their coop and business shares out. Face to face negotiations with the president have been carried out with all members who were intent on leaving.

Most of those who left the coop lost their equity in the years after their leaving, and with the exception of only a few of them, stopped farming. Their leaving was negotiated in a fair way and it went on smoothly without scandals and loud noisy.

However, the years after political turn have proven difficult to survive for agricultural produce coops. Still, Coop „BÉKE” decided to follow its own way and was among those limited number of coops able to increase output, producing profits and accumulating part of the latter over the years. Coop “BÉKE” decided to buy out local Coop “Zelemer”. In addition a turkey plant was bought. Two more beef and one pig production unit have also become coop ownership. To enlarge the capacity of the coop a merge was initiated and executed with Agricultural Coop “Agro-Balmaz” in 2000 which was a unique action in Hungarian agriculture during those years. Now the Coop „BÉKE” is one of the biggest agricultural coop by cultivated area at national level.

3.2.4. Celebrating the 50 years anniversary of establishing the coop in 2005

For the time being the coop cultivates some 7000 ha where land parcels in one big field belong to some 80-100 landowners. Nowadays near 600 people work for the coop in 26 different units. The coop has run business cooperation with more than 100 entrepreneurs and cultivates the land area owned by 4000 landowners. By this way the Coop “BÉKE” has a strong influence in the region and recorded as the second biggest employer in town.

Following the strategy the coop has expanded its activities in a great extent over years by new investments mentioned earlier which demanded more loans from banks. At the same time it was not able to buy substantial part of business shares from outsiders. Instead, the latter was made by the government at the end of the nineties so some half of business shares were taken over by the government. Based on government resolution taken in December 2005 the shares were given back to coop as state allotment but coop is obliged to use it as joint ownership and can not split up among members.

Although, the coop faced real challenges over the years, it still achieved significant economic results due to helpful and hard working members ready to work together and supporting the coop as a frame for farming activities. The relationship between members and the leaders has been good. Members trust leaders. Any problems can be raised and discussed in order to reach a solution offering advantages for both sides.

At the same time it is clear for the leadership there is no good reason to say everything is O.K. and coop has no problems at all. Leaders know the coop can keep good results in the future if it will be able to make innovation and meeting the needs of consumers and buyers. The key points are reducing loans from the bank, making new investments and using the latest technology in order to reduce production costs per unit output, increase productivity, and running more profitable activities.

Successful development performed over the transition period does not mean the coop “BÉKE” has no economic problems and faces no challenges. It does, mainly related to the expansion strategy adopted during the last decade. The coop expanded by making new investments over the years through heavy borrowing. The idea was that the coop would become a more stable economic agent by having bigger potential. The bigger the coop, the more stable its economic performance - producing more profits and offering both owners and workers higher income. However, this strategy was not justified by market needs.

Leaders of coop expected to have higher income after joining the EU and getting the same level of subsidies that farmers within the EU 15 have. This illusion was lost right after having signed Copenhagen agreement where agricultural producers in 10 new member states were offered only 25 % of direct payments (increased by 5% annually in the coming years) paid to EU 15 farmers.

3.3. Establishment of Purchasing and Marketing Cooperative of “Hajdú Gazdák” (PMCHG)

Agricultural Association of “Hajdú Gazdák” (Hajdu Farmers) was established at the beginning of the twentieth century and has played an important role until the communism regime established. After1990 individual farmers and some former coop members raised the idea to make the old Association work again. Producers had to realize if they worked individually and did not cooperate, they may loose a lot during purchasing inputs and marketing of the products.
3.3.1. Establishment of Farmers’ Club

To support small producers ‘Farmers’ Club was established in 1993. The objective of the “Gazda Club” (“Farmer’s Club”) was to “represent the interests of the members, improving the skills of producers, increasing both the output and the quality of production, promoting and marketing the products, increasing the productivity of the soil and protecting the environment.” (MÓNUS, 1999).

3.3.2. Founding Purchasing and Marketing Coop „HAJDÚ” (PMCH)

PMCH was founded in July, 1996. Its predecessor was the Farmers’ Club (“GAZDAKÖR”). PMCH focused on gathering and spreading information. In addition coop dealt with joint purchasing of inputs in order to reduce input costs and marketing the products. Later on a need on coordinating the quality of products has been occurred.

Now days there are more purchasing and marketing coops in the region mostly organized on family basis where relatives and friends might also be involved. From this point of view PMCH as such was the biggest Purchasing and Marketing Cooperative (PMC) in town, and probably in the whole county. Among additional activities post harvest functions also was planned to be covered by PMCH.

3.3.3. Establishment of Purchasing and Marketing Coop of “HAJDÚ GAZDÁK” (PMCHG)

1999 was the year of transformation of PMCH. As marketing coops established after 1999 got additional capital and current equity support from the government PMCH decided to establish a new Producers Organization called Purchasing and Marketing Coop of “HAJDÚ GAZDÁK” (Hajdú Farmers) (PMCHG) to access the support. Justification for such action was also underlined by Murray (2004) saying “Cooperation between people requires networks of association, and can be distinguished as situations where there is visible action on a collective level for a predetermined goal or social dilemma.” Short after the establishment of PMCHG the new and old coop merged keeping the name PMCHG without any problems as members in the two coops were the same people. At the moment PMCHG has as many as 61 members

Between 2000 and 2002 the PMCHG got some HUF 30 million supports from the government and two iron silos were built with a capacity of some 3000 tons. The coop has also permission for building 4 new silos up to a total capacity of 10000 tons. However, from 2003 on only those farms were eligible to get support which had a turnover over HUF 300 million annual. Due to low yields and low market price for pigs did not make for PMCHG possible to have a turnover above the guideline and the coop found itself out of circle of supported coops.

PMCHG has been improving despite its small size. People think it worth to organize Producers’ Organization (PO) at county level to extend the basis for cooperation. Now it is more or less clear for the people that future needs make it necessary to have a PO with more members from the whole county area. PMCHG has established new contacts with big processors as Can Factory, Nagykőrös, Can Factory, Debrecen, Can Factory Nyiregyháza.

One of the problems coop members have had to face is the fragmented land parcels. Not only is the average size of field of members’ farm small, in addition coop members have several parcels located in different fields making the production more costly and the jobs more time consuming. In one case the
size of a parcel amounts to 7 ha while on the other end it may happen that 10 land parcels together amount to the same size.

Concerning institutionalizing of marketing of agricultural produce PMCHG is the only purchasing coop existing in town.

Coop PMCHG had already some 8-90 members earlier, but unfortunately, the market was not good, so the number of coop members has declined. But still the coop works well in relative terms. However, there has been a learning process for coop members to know what advantages they really can expect from the coop.

### 3.3.4. Future development of PMCHG

The coop is managed by the Board of Directors consisting of 5 members. Supervisory board has 3 members. Members’ Council meeting is the top level decision making board where one head one vote system works. Getting in and leaving can be arranged once a year at the end of the year in order the conditions of registration and stepping down can be set precisely. Payment for leaving members based on equity ratio, and new members have to pay the same amount what leaving members take out. The per head equity ratio is the invested capital by one member. Concerning future cooperation question by members has been raised what about to invest into a new plant of feed mixing. However, until members have their own feed mixer of low capacity there is no pressure from members to have a joint new plant.

For successful future development of the coop one of the key issues is how much extent the social capital can be improved and strengthened within the coop. Becoming more familiar with market demand in mid term helps coop members to change their product structure, to recognize the need for technological development etc. But the so called internal capacities of the coop and coop members have to be enhanced as well.

The coop as an economic agent and its members also has to change their farming practice, their attitude towards market responses in order to maintain and even to increase their competitiveness. All this demands a lot from coop members and leaders.

### 4. Methodology and Analytical Framework

In recent literature, social capital has been the focus of research. It is cited as one of the key elements of economic growth, measured in part by the level of trust. However, level of “social capital depends on person’s connections (whom they know, but also connections through common group membership), the strength of these connections and resources to their connections.” (Sobel, 2002). The latter demands that issue of social capital and its strength should be discussed and evaluated in the given social economic context. IDARI Project WP3 deals with social capital, governance, and institutional innovations by analyzing processes of achieving cooperation, and to understand the failure of cooperative strategies. To understand the concept of trust communication and social learning are focused by case studies. People try to consolidate their relationship with each other through by joint actions, communication, reciprocal engagement resulting in strengthening trust/mistrust. Murray

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(2005) underlined that the extent of networks of relationship is determined by prevailing social norms of the group, the necessity for interaction, and motivations of individuals to interact. Question can be raised: how to measure the level of trust of people towards the group they had belonged to for a shorter or a longer period of time and the coop as an organization? If coop members would have had low level of social capital as a heritage from socialist regime or would not have trusted in cooperation then after radical reforms coops would have been broken up in general. Indeed, the latter happened in Romania and Bulgaria, but not in Hungary where because of different reasons there were 127 out of 1441 coops that could not adjust to new legal needs until the deadline and have disappeared. Some 10% of coop members decided to leave the coop and running family farm. The rest decided to continue cooperation. These are evidences indicating that vast majority of coop members did not think that leaving the coop and doing farming on their own would have been a better choice for them. This is an evidence that trust of people was high, in the coop as an organization, on one side and the people including leaders within the coop on the other. The latter depended on the level of farming and profits achieved during the years prior to political turn.

4.1. Social capital during socialist systems

Some research on social capital in former socialist countries has been made. Chloupkova et al have made a comparison on social capital development between cooperatives in Denmark and Poland and concluded that the level of social capital was higher in Denmark than in Poland. Authors emphasized that during communist regime social capital was destroyed in Poland and it was found as an explanation of having lower level of social capital in cooperation in Poland, although, that was at similar level in both countries before World War II. Their finding can not be argued, however, we have to be careful to give broader basis for this finding and making general statement on social capital situation in former socialist countries. First, although, socialist counties belonged to the same political system, however, they had national characteristics. Second, in contrast with other former communist countries in Poland small farms have dominated agricultural during socialist system where social capital and cooperation have been developed/destroyed under Polish social and economic environment. Third, small farmers in Poland have accumulated sufficient experience concerning their trust towards each other in local region and to those companies buying their agricultural products up. For them private farming was the main or the only source of income to support family.

In Hungary private farming had marginal role in gross agricultural output since the collectivization ended in 1961, but small scale farming has been additional source of income for cooperative members during the same period. These small farms mainly belonged to coop members having small plot of 0.2-0.5 ha each for household production. Household production has developed due to improving cooperation with the coop. Since 1967 a mix of centrally planned and market economy has been conducted in Hungarian agriculture. Mechanisms of market systems were also introduced and influenced the behavior of market players. The latter looked for opportunities to reduce transaction costs in the vertical chain in order to strengthen their market position. During some two decades vertical cooperation between producers, buyers, manufacturers and traders has been deepened. Better coordination has increased trust of producers to purchasers. In many cases, buyers decided to provide

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9 Dr. Catherine Murray: Social Capital and Cooperation in Central and Eastern Europe - A Theoretical Perspective. IDARI project. Humboldt University. February, 2004
agricultural producers with an extension service on technology issues, and providing necessary inputs were paid back after marketing the products. Vertical coordination has become efficient and transactions have been undertaken smoothly. Income of people working in agriculture has increased and income disparity between agriculture and the rest of the economy more or less diminished. Due to latter level of trust of cooperative members and individuals has also been improved, more for those whose income growth was higher and less for those where it was moderate or, people had the feeling that as private farmers they could have made a better job.

4.2. Why has social capital declined significantly after political turn?

Agrarian reform processes in CEECs have been focused by many researchers from different point of view as political economy, property rights theory, transaction cost economics etc. Valentinov (2004) pointed out that in all these approaches social capital has played a decisive role concerning the outcomes of the reform. Each approach was shown to reveal some specific aspects of social capital concept and by this theoretical scope of social capital has been expanded and additional findings were generated.\textsuperscript{11} In this section we would like to go further on this line showing that level of social capital during transition and especially in the first phase of it, depended on several key factors reflecting national specificities as well. It is a fact that social capital substantially declined in CEECs following radical reforms. Questions arise, as how to explain such decline; why people do not want to cooperate even if it is rationale and why it took more than one decade for many people to start cooperation despite the obvious need for it years before?

To give an insight of this aspect we focus on some major issues affecting social capital. First, how much extent the land ownership has been changed? If the latter has gone through radical changes resulting in many new landowners having no experience of farming, no intend to do that and even having not sufficient capital for improving farming then social capital declined (destroyed) very much. New landowners may have had jobs in town or living far from the area their land is located, or simply are pensioners not being active any more were not interested in farming. For them new landownership did not mean what it was for active people living in rural area, or for a young people having enough energy starting new business. In most of former socialist countries landownership has been changed dramatically. Hundreds of thousands or even more people have got a certain piece of land due to restitution, compensation or land distribution. High percentage of them has not had experience in farming. In case of new landowners social capital could not be high at all, as the latter should be based on own experience. Second, people at the beginning had to know how much extent former agricultural policy would change and how the new governments wanted national agriculture to be further developed. Until the vision of political leadership on new agricultural policy had become clear for landowners took time. The larger the change in concept between the new and old agricultural policy, the higher the destruction was in social capital. For people to forget what have been good for decades and, to follow rules, which were radically different from them could not be easily digested. Producers had to make new costs-benefits analysis of farming and recognize what products would bring profits under new conditions and which not. Furthermore, in a market system there is no guarantee to get reasonable farm gate prices what had been the case during socialist area. Third, what was the level of social capital and the cohesion of members of cooperatives prior to political change? If it was relatively

high then it provided a more stable basis to survive the difficult period of transition. However, if trust among members and institutions affecting farming had been low then it could not have been proved sufficient maintaining cooperation during transition. People looked at challenges and decided not to follow collective actions but finding individual strategies. Power of a community partly depended on trust towards agricultural policy and external institutions, which were part of the economic environment of agricultural producers. Internal cohesion of a community, e.g., a cooperative also depended very much on the leadership and trust of members in leaders. If the latter was high because of past experience and, leadership consisted of well-educated people who understood the essence of the market system and were able to understand what to do in order to overcome difficulties in transition period the social capital may have proved sufficient to a smooth, but at least an efficient move towards market system. Trust in leadership has become decisive factor in case of many coops in Hungary. Where the leaders could find the right way to run efficient farming meanwhile moving towards market system cooperatives could survive, otherwise they either have gone bankruptcy or broken up. Fourth, how much social capital in general, social norms and trust of people were affected by radical reforms. If the change was significant and new situation was not transparent for the society as a whole then more and more people started to break the rules. Actions of people making big deals in a short period of time and getting rich overnight regarded as not ethical and not acceptable by the society even if they did not break the law just taking the advantage of legal niches derived by radical reforms. However, if more and more people followed such approach then it also resulted in destroying social capital very much.

4.3. The leadership issue

Following political turn a new agricultural policy was introduced with significant reduction in subsidies, liberalizing markets and, to a certain extent, emphasizing the preference of government to establish family farms rather than maintaining large farm structure. These elements, one by one, have proved a real challenge for agricultural cooperatives. At the same time domestic demand for food declined, and important export markets have been lost. Cooperatives had to cope with losing significant part of subsidies, more demanding competition and new agricultural policy, which was in favor for newly established family farms rather than existing cooperatives.

In Hungary agricultural coops could be put into three categories after radical reforms. First, a small percentage (below 10%) of coops, because of different reasons, could not meet the requirements of the law on coop transformation in the early nineties. Second, in the second half of the nineties and early this decade more coops have gone bankrupt or broken up because of producing losses and eating up coop assets. Third, one group of traditional coops could meet both legal needs and demands of market systems so far. The question can be raised what were the main reasons that certain coops were able to survive and how they have done it? Analyzing the successful transformation and transition of a coop well known and efficient in previous regime it turned out that leadership and the trust of members in leaders played the key role. Murray (2004) pointed out the debate on the definition of social capital having roots in sociology and economics, where ‘social’ implies collective actions and norms amongst individuals, whereas ‘capital’ is an economic term removing individuals somewhat from their social context. She set up a model listing factors influencing cooperative behavior amongst individuals, as norms, values, bounded rationality and opportunism, social capital (including trust, mistrust, reciprocity and reputation), communication structure, social learning, number of stakeholders influencing. Concerning the latter leaders and leadership may have a decisive role in improving and
maintaining high level of social capital. But question can be raised why leaders/leadership is ready to help the community to continue cooperation instead of following individual strategy bringing better economic results for him/her/leaders? Because the relationship between leaders and members can not be explained only by economic arguments, but social aspects are also important. Working together and helping each other for years and suddenly just forget about it demands such change in human behavior which some of the formal leaders could not accept. Findings from both the experimental study and the cross-sectional survey by David De and Daan showed that leader self-sacrifice has positive effect on cooperation and, perceptions of trust in the leader and feelings of collective identification mediated this effect of self-sacrifice.\textsuperscript{12} Focusing on different group aspects of leadership in social dilemmas Vught concluded that the effectiveness of leader solutions to social dilemmas depends upon the fit between leader characteristics and member expectations.\textsuperscript{13} To justify the importance of leaders and leadership a case of a Hungarian coop will be analyzed and pointed out that attitude of leaders to coop as a common and jointly established house and, coop members involved in collective actions were so strong and the level of trust of members in leaders so high which helped the coop to overcome political and economic difficulties so far and, even to enlarged the size of farming within coop frame.

5. Visual presentation of actors and their interactions

In this section we deal with the actors of both case studies at the beginning of transition. Besides listing the actors, their weight and influence on future development of farming will be discussed as well as interactions between them. Wide of arrows in figure 1 and 2 reflects the importance of a given link. In early nineties the following key question was put to all members: To leave or not to leave the coop for transition? Below one can see that relations among actors had different structure weighted. We have to note that in County Hajdu-Bihar there was strong tradition of family farming before collectivization. Five elements will be briefly reviewed what coop members had to take into consideration for final decision.

5.1. Coop “BEKE” – A Traditional coop

\textbf{Agricultural policy}

After the political turn the new freely elected government declared: the aim was to establish a competitive, less subsidized agriculture where family farms were preferred to be established and supported.

\textbf{Laws on coops – legal environment}

Law on compensation, on (new) coops and on transformation of traditional agricultural coops meant new legal environment. Land has become private ownership. By law coop’s equity as animals, machines, building etc. had to be distributed among coop members and all those who decided to leave the coop, besides the land, had the right to take their share of equity (business share and coop share) in


physical form and/or in cash out leaving short period of time for coops to meet legal requirements. Coop “BEKE” met the needs before the deadline.

**Vision of future of family farms**
Most of coop members did not want to start family farming but having a job in the coop with stable income for the family. However, small portion of members thought family farming under market conditions will give them more freedom and by this way they would be able to increase family income from private farming. Encouragement from government was an additional strong argument for leaving.

**Leadership of the coop and the social capital of the new president**
In 1990 after 25 year service the president of the coop stepped down and a new president was elected with the vast majority of votes. The new president had also had been worked for the coop for long time. There has been high level of trust between the stepped down and the new president and between them and most of the members. So the internal factors of social capital were at high level. Leaders and majority of coop members did not want to split the “COOP HOUSE” what they had built up together over years. Having trust in leaders members found out that staying in the coop is more advantageous for them than starting family farming. The question for leaders was the following: were members of the coop allowed or even encouraged to leave the coop or, a negotiation with all members had to be started and discuss what splitting of the coop would mean for members and what perspectives could be envisaged for those to leave. That time the situation was not clear at all, for many coop leaders either.

**Members**
Except a small minority of people, most coop members did not know so much about future possibilities of individual farming under market system. Others mainly focused on the advantages of it and disadvantages were somehow neglected. In their cases the level of social capital was low so the trust in leaders and in the coop as a whole. Some of them were not sure that individual farming will bring more income for them but at least they supposed to have the freedom as compensation. External trust to government, agricultural policy and state institutions were high to justify their expectations. Coop president sit for discussion with all members thinking of leaving one by one and explained advantages and disadvantages of starting family farming and cooperation. People having positive vision on family farming, knew something about markets but the power of market competition was underestimated by them. Relations and interactions between actors in Coop “BEKE” before the decision made on transformation of the coop can be seen in Figure 1. The wider the raw the more important the interaction and relationship between actors. As a result of internal negotiations between members about to leave and leadership, especially with the new president finally 7–8 % of members left which, according to their business and cooperative share, were fairly compensated by the coop without any scandal.
5.2. Purchasing and Marketing Coop of ”HAJDÚ GAZDÁK” (PMCHG)

**Agricultural policy**
Agricultural policy after political change focused on restructuring existing farm structure and besides decreasing state subsidies wanted to establish competitive agriculture based on family farms. Such policy could be regarded as encouragement for coop members to start family farming.

**Laws on coops – legal environment**
The introduction of the law on compensation, on new coops and transformation of old coops resulted in a new legal environment. Some members left the coops and started family farming. For them cooperation was initiated at family farm level in order to reduce transaction costs.

**Vision of future on family farming**
Those who left coops were sure they would be more successful as individual farmer. In addition, there had been some individual farmers in the region, who could be regarded as good pioneers. The level of private capital was not high at all, but many farmers still believed that additional financial resources would be available from the government, within the new agricultural policy.
**Founders of Farmers’ Club – Leadership of PMCH**

As first step of cooperation Farmers’ Club was established in 1993. Among founders one can find farmers and previous coop members who left one of the coops in town including some key people had been involved in top level communication channel for agricultural for years. Some of them have had run family farms for years while others had no experience about market competition but wanted to become a member of the Club and accessing information. Key players have had strong influence on setting up conditions for further development of cooperation in coming years. Formal leader took only necessary administrative jobs but has not had strong influence in the coop later on.

**Members**

Some of them had been farmers while others, after getting back the land and assets according to their shares left traditional coop. Their social capital was strong that time. Internal part of it was connected with the founders having sufficient experience in family farming and former coop members being well informed about agricultural policy issues. Concerning external factors two pillars of social capital have to be underlined. They trusted very much the new government and also trusted institutional environment in the food business with special respect to those dealt with purchasing agricultural raw material supposing the advantages of distribution system prior to radical reforms would be maintained helping small farms marketing the products.

Linkages and interactions between different actors can be seen in Figure 2.

5.3. Brief comparison of interactions among actors between Coop “BEKE” and Farmers’ Club.

In the beginning of nineties social capital in general was a bit stronger among members of Coop “BEKE” than that in Farmers’ Club, however in some areas the picture was the opposite. The heritage of social capital from the socialist era was strong in Coop “BEKE”, due to the successful development of collective work achieved over years, and trust towards leaders was also high. Previous president of the coop has been in service for more than 25 years bringing success for the coop and coop members for years. The atmosphere between leaders and members were sufficiently good, legal environment, since early seventies has been transparent and stable. The new president elected by the majority of members in 1990 had also worked for the coop for long period so was well known, too. However, after radical reforms, trust to state institutions, legal environment and agricultural policy was low as the latter preferred family farms and did not support cooperatives. Leadership had strong influence on decision making of coop members. Due to information asymmetry leaders were able to convince members what to do by using sufficient professional arguments. Most of members, however, trusted their leaders because of good past experience.
Farmers’ club focused on sharing information only. Later on new needs occurred from members, namely they decided to make joint purchasing to reduce transaction costs, even later marketing the products and, at the end of the nineties the need for joint investment was justified. All steps showed a continuous demand for deepening cooperation.

6. Determinants, Effects and Processes of Cooperation and Rural Institutional Innovation

In this section a parallel evaluation of interviews, five from Coop “BÉKE” and five from Coop “PMCHG”, will be analyzed and similarities and differences will be pointed out. In addition, the outcomes of a long discussion with president of Coop “BÉKE” and managing director of Coop “PMCHG” will also be discussed.

6.1. Role of trust/mistrust and opportunism
Research question: Are high levels of trust an effective means of reducing transaction costs in the case study?

Social capital, trust and cooperation mean people always looking for the possibility working together in a smaller or a bigger community in order to take the advantage of such cooperation. The latter happens every day within the family life when organizing the jobs, with neighbors when discussing the experience of field work, or just taking one car when going to theatre with neighbors in the town 15 km away etc. To take and manage collective actions supposes people belong to a small or bigger community in the neighborhood, in the village, in local community, in town or in county etc. In most of the cases such links are not formalized and during the interviews are not mentioned explicitly, although, they were existing and but people regard them as natural ones.

Among the 10 interviewees nobody indicated being a formal member of a local, regional group or association besides their coop except in case of Coop „BÉKE” where one person also was a member of the regional federation of coops and one who also worked for local government. People in either coop have no links with any social organizations reflecting a more individualized way of life during last years.

Coop „PMCHG” is a relatively young organization, all members have joined to the coop on a voluntary basis, two of them were already members of the farmers’ club (predecessor) and one was even a founder of the latter. Three people defined their community at town level the other two regarded the family as such, one of them extending it to the neighborhood. Members of Coop „BÉKE” found important to mention that their parents were also members of the coop and three of them had already been employees of the coop before joining. In two cases the town and the neighborhood meant their community, one of them regarded the family and working colleagues as such and, one emphasized the importance of the whole county.

The arguments used for joining the coop were rather different in the two cases. Members of PMCHG emphasized explicitly the economic aspects as the only ones as helping in access to markets, to cheaper inputs and representing common interests, getting to be more informed and having stronger lobby power on the markets and by these elements decreasing transaction costs. In other words “From an economic viewpoint, social capital recognizes value in social relationships, which can have market benefits, and as such should be considered akin to physical capital (Glaeser et al, 2002) (After Murray, 2004). Indirectly, it means that low level of trust in state institutions as not providing sufficient information on market developments and development programs for individual farmers, it is better to cooperate to reduce transactions costs.

People from Coop „BÉKE” mentioned their coop membership and, the argument that coop is about cooperation and integration brings advantages for its members. Their trust to formal institutions is higher under coop framework. The coop has achieved good reputation over last decades enabling current members to conduct a more efficient market performance through the coop at reduced transaction costs.

In both coops interviewees, depending on their age, have known other members of the coop for a long time between 5 up to 40 years, a strong evidence that trusting with them based on an experience of long term. However, discussing the trust in more general basis members of PMCHG gave more positive answers and only one of them added that some documentation is also needed besides simply trusting people. Coop members of “BÉKE” were more pessimistic based on experience after 1990 mentioning one can not trust to everybody, or even people can not trust at all. One answer lighted that trust is the basis for integration which otherwise is important. Members in both coops found trust and reciprocity as important element of social capital, however, their approach to the issue reflects different standpoints.
In Coop “PMCHG” members also have already known other coop members for many years. In their case the level of trust has changed (mainly improved) based on experience gained from year to year. Those found reciprocity advantageous for their farming over the years had a deeper commitment for deepening the cooperation in the future, while those who thought they had not received enough advantages from the coop have decided to leave. Coop members of “BÉKE” depending on their age and duration of membership, may have had experience through decades. Others joining the coop later on have known about the good reputation of the coop or, related experience of their parents was already known for them from childhood. The attitude of such people, how to evaluate trust, reciprocity and reputation was based on an experience of longer period. They were more critical on one side, and having nostalgia of old days on the other. After all, members in Coop “BÉKE” have been more informed on historical aspects of farming and have got information based on deeper analysis in compare with that of members in Coop “PMCHG”.

The average level of trust to different groups was found more scattered. PMCHG coop members indicated high level of trust to farmers and their own ethnic or linguistic groups. Trust to state authority was also above average. Partially contradiction to the latter is that the lowest level of trust belongs to national government officials and, people from other ethnic groups, regional government officials and EU institutions. Although, they were more cautious about trust, still the average trust level given was much higher in case of Coop „BÉKE” members. Probably, due to be better informed. Their trust, in compare with that of Coop “PMCHG”, was much stronger in case of EU institutions, both national and local government officials but was also very low in other ethnic or linguistic group. It has to be added that there is a high proportion of ethnic groups (gypsy) living in town and socializing them faces problems. In all other lines the average level of trust was quite stable and strong.

As far as the benefits from trust is concerned PMCHG people found worth to mention the following: people are helpful, trust is the basis of common interests, the mutual trust is the biggest treasure and the benefits depends on people themselves. Coop “BÉKE” people also found the mutual trust as advantage but stronger emphasis was given to a more efficient work and good work atmosphere. They recognized that successful operation of the coop heavily depends on quality of the work which needs good local atmosphere. People in both coops are open to cooperate with other people who are not current members of the coop. It provides a good potential for further development in cooperation. As far as the conflicts among people within the group is concerned most of PMCHG interviewees have not found any problem at all, only two people indicated such problems but found them not significant. Coop members of “BÉKE” are more cautious formulating their answers, admitting conflicts can come up everywhere, although, it is not typical in the coop, and if happens then “3 meters distance” will be kept to those who had generated it. This is an evidence that trust can be lost if conflicts are not discussed and cause of it not concluded clearly.

Solving problems addressed by the group should be mainly managed by the coop rather than by national or local government office - PMCHG people said. This is a justification that coop is able to manage difficulties on its own in a large extent. The answer of “BÉKE” members was more sophisticated, mentioning that it depends on the issue. Problems with economic conditions should be solved by the national government, but the coop has to do its best to solve all those problems within the coop, where possible. The latter was backed by the fact that 4 members of Coop „BÉKE” had asked for government help and, two of them were successful, one partially and, one was rejected, while in case of PMCHG only one interviewee asked for such help but without any success.

Hypothesis 1: “Where trust in formal institutions is low, high transaction costs are experienced in dealing with the State and, actors will rely on informal institutions to solve their problems of collective action.”
The hypotheses 1 is justified: if trust levels in state institutions are low then to reduce transaction costs people look for informal institutions to solve their problems.
One can conclude that high level of trust is an effective means of reducing transaction costs, however, higher levels of trust can be reached only by own or partially by parents’ experience of a longer period.
Trust towards formal institutions differs in the two coops. Members of PMCHG have low level of trust in current government officials and EU institutions. In contrast Coop members of “BÉKE” trust stronger in national government and that in EU institutions was also above average.

6.2. Role of communication and learning

Research question: Is communication used as a source of power by central actors within the case study, in terms of opportunism by limiting access to information?

Both in creating and improving social capital communication plays a central role. People in communities always change their views on different issues based on information gained through different communication channels. The level of how intensively used these channels are affects the level of social capital. It was interesting to know what were the main sources of information of the interviewees in the two coops and, was there any similarity between them. Concerning government and EU issues local markets/shops, government agencies, parties, and internet communication channels are not used at all in either group except the internet was mentioned by one person from Coop „BÉKE”. TV and radio were mentioned as frequently used communication channels in both groups but it was stronger in Coop „BÉKE”. However, information obtained from relatives, friends, community leaders, different groups and associations, business or work colleagues and community and local newspapers were mainly emphasized by people from PMCHG. In case of members of Coop „BÉKE” only two of them (community or local newspaper, and business or work colleagues) were marked but at more moderate level.
It was clear that members of PMCHG tried to find more channels to gain information and used them more frequently, while members of Coop „BÉKE” mostly relied on TV, national radio, national newspaper and, community leaders but the latter was not as strong as in case of coop “PMCHG”. It has to be underlined information from coop leaders were backed on obtaining and analyzing information from different governmental and other source of information. As members trust in leaders they also trust the information getting from leaders. As individuals they were not forced to spend more time in collecting necessary information as it was the case for PMCHG members.
As far as collecting information on community issues is concerned the picture was rather different in compare with government and EU issues in both groups. In both cases the frequency of collecting information was significantly less at this level. All PCMHG members got information mainly from community leaders as well as from community and local newspaper, while the two most important channels of “BÉKE” coop members were partly also community leaders and besides the latter business and work colleagues. But using internet, groups and associations, national newspaper and radio and TV were not mentioned at all, except in PMCHG where from the last four channels one people obtained information from each. Coop members of “BÉKE” spent less time for keeping themselves informed through different communication channels probably, because channels used conveyed sufficient information for them.
The feeling how much extent people were satisfied with information they may have had was a key point. Based on Ostrom approach (after Murray, 2004) that during the communication process, social capital is enhanced or eroded through the establishment of trust, reputation and reciprocity has resulted in a positive outcome in both coops as the general picture was excellent as all the ten interviewees said they were satisfied. One people from Coop „BÉKE” added, if not than additional efforts has been made to get it. It looks like there was no need for additional information. People in PMCHG mostly use written, less extent verbal and phone mode, while in Coop „BÉKE” the phone was the most frequently used channel while face-to-face and written mode were also indicated. Few fields were indicated as weak points of communication: PMCHG members found the decisions on investments as that type. The level of satisfaction was higher in coop “BÉKE”. Blockage or withholding information within the coop were not indicated as serious problem, however, in Coop „BÉKE” information was given on tensions dealt with sharing jobs, allocating resources and fixing fees of different jobs.

Besides the simple fact of using communication channels it also worth to know how often project initiatives or other business issues were discussed. The high level of satisfaction with getting necessary information was supported by the fact that in both coops there was a continuous discussion on important business issues. It was rather general picture that people changed information on a daily basis, and especially they did it immediately if a new issue or information came up. Mostly the affected people were involved in such discussion. It can be stated the dialogue among people is quite intensive and new learning is shared as soon as possible. However, PMCHG coop members were more optimistic concerning problem solving by members and were satisfied with the efficiency of such actions saying problems will be solved very likely or somewhat likely. Member in Coop „BÉKE” have provided a more neutral and at the same time more sophisticated opinion underlining that success partly depends on the issue itself and the trust and relationship between people. If the latter is good then problems can be easily solved.

As far as the external contacts with relevant people of other similar organizations is concerned members in the two coops thought that such tasks were mostly the job of leaders, sometime the individual himself/herself, however, such external relationship is not very strong in either case.

People underlined that working for the coop for a shorter or a longer period one always has gained something from it. The members of the younger coop, as major value, put emphasis on joint efforts, collective actions mainly, but still two of the five thought not to mention anything at this point. In case of “BÉKE” people indicated the value of being well informed, but it was also important to learn how to stimulate people during the communication process, “how to sell the product” for others. Looking at the experience in this field no one out of the ten interviewees mentioned that they would have changed their opinion or behavior towards other actors since their joining the coop.

**Hypothesis 2: The more frequent and complete the communication between agents, the greater the cooperation should be tested.**

Hypothesis 2 was justified: All ten interviewees said they were satisfied with the information they had been provided. If not, then additional efforts made has been proved efficient and brought the missing information. As level of communication affects the level of cooperation it can be stated the level of cooperation has not been handicapped by shortage of information. In the two cases people have used different channels at different intensity to obtain sufficient information. It turned out that communication has not been used as power by central actors, but as a bridge through which more help could be given to members. Only a limited response was given by people from the coop “BÉKE” indicating the withholding of information.
6.3. Transaction costs and governance structure

Research question: How do transaction costs affect the choice and changes of governance structure?

There are factors, which may force, encourage or push people to make them willing to cooperate. However, it is a bit surprising that none of the factors was given high priority in affecting transaction costs. PMCHG people found the incentives (economical, environmental protection) most important followed by historical background of relationship which affect the transaction cost utmost and, for reducing the transaction costs they were willing to cooperate. Geographical distance does not play important role in their willingness to cooperate. They were open minded people and ready to cooperate with those who are not current members of the coop. Education level is at neutral line. Members of Coop „BÉKE” also appreciated very much the historical background of relationship (more experienced base approach) and education. All other factors as geographical distance, membership in the group, personal relationship and incentives got a grade below the average. They found out that, although there were different factors, but all of them were important, some of them even more important but not with high priority.

Most of the interviewees have not calculated any costs of attending meeting although, they existed. However, members regarding the meeting as necessary issue its cost aspect in case of internal meeting was neglected. Concerning the external meeting more people indicated the related costs, although just one of them calculated (time and other efforts) it in cash as well. Coop “BÉKE” members underlined the importance of the time factor, but still 3 out of 5 did not answer the question.

Membership was found as factor that members could benefit from. It was especially so in the coop of PMCHG rather than in Coop „BÉKE”. Members of Coop “PMCHG” indicated as benefit to access market, to reduce input costs, joint use of machines, getting farm gate price based on quality. These were factors, which provided additional financial sources or savings for members. In addition financial and administrative advantages were also emphasized. In case of Coop “BÉKE” besides advantages belonged to other factors as having a job, access to some natural allotments and financial advantages, “no advantage and no disadvantage” was also mentioned. People listed those factors which they have had for years but there was a risk to loose them which was a bit more employee’ approach and such benefits as related to market access, bargain power etc, were regarded as natural ones. Here one has to keep in mind that at the end of 70s the growth of national economy slowed down, national budget had severe debt problems and the government decided to withdraw money from different sectors including agriculture to support the national budget. As a consequence agriculture became net supporter of the budget in 1982 and had kept that position after that.

To improve efficiency and enhancing cooperation behind that a new experiment started in agriculture in the first half of the 80s. Coops producing losses were given more freedom in paying more wages if they were able to produce sufficient amount of profits. They had to pay tax as well but it was scheduled three years in advance. It turned out coops, which used to produce losses for years changed their governance structure and organized profit centers within the coop. Coops got freedom in their activities and calculated economic results. It was a good example when, forced by bad economic situation, the state decided to give more freedom for economic agents. The latter changed its governance in order to adjust. Later on other coops not involved in the experiment and state farm as well changed their governance structure. Based on the latter incentives and wages were increased. As
coops were able to produce profits instead of losses make the members more satisfied and so it contributed to enhancing cooperation.

PMCHG (see under point 3.3.) has changed its governance structure in 1996 as well as in 1999 in order to reduce transaction costs or to become eligible to access additional sources and improving cooperation.

**Hypothesis 3: Reducing transaction costs generates changes in governance structure.**

For Coop “BÉKE” it was justified that coop in order to reduce transaction costs has decided to change governance structure and has adjusted to new economic conditions and market situation. In case of the smaller PMCHG where production has been organized at family level the governance structure has been able to absorb new activities and services without significant change in governance structure yet.

### 6.4. Role of state and formal institutional environment on cooperation

**Research question: to what extent can the State and its formal institutions enhance cooperation?**

State played an important role to encourage (sometimes forced) cooperation first by managing the collectivization (1959-61) where large farm dominated agriculture was established with decisive weight of cooperatives on the one hand, and supporting the developments of these coops later on the other. Members in both PMCHG and “Coop “BÉKE” agreed upon that activities of coops in socialist time had been efficient and coops were in a good economic shape. Those days even Western countries were not so much happy to see how strong and success most of these coops were. Such development could not have been achieved without strong support from the government.

Later as second wave of support another injection was given to agricultural cooperatives and state farms as well. Based on economic analysis a new economic system was put into practice in agriculture as experimental field on January 1, 1967. Since then farms were not given directives any more. Using economic incentives such as price, tax and income laws, production was regulated. To test the real effect of the new mechanism most of the loans of coops had borrowed from bank was deleted to start with empty balance sheet. There were two more factors should be mentioned as state contribution to improve cooperation.

*First*, coops were allowed to run so called non-agricultural activities, as construction work, producing spare parts for industrial companies etc. These activities produced more profits than animal husbandry or crop production. From the profits of the latter substantial part was channeled back to basic agricultural activities. By this way self-financing of new investments were managed by the coop where additional subsidies from government were also available for new investments. Taking the advantage of subsidization policy agricultural coops had established new infrastructure of the farms, bought latest technology and new machines, increased the level of GAO, produced more profits and paid more for members and employees.

*Second*, coops could do the latter because the former rigid price setting system has been changed and farm gate prices were gradually increased approaching market prices. State and its formal institutions definitely made significant contribution to enhance cooperation. As a result, agriculture in Hungary and agricultural coops behind have reached significant high growth rate in the first half of seventies and still reasonable level in the second half of the decade.
As economic growth was slowed down from the beginning of the 80s government decided to follow problems pushed reforms based on pragmatic approach. By giving more freedom for small economic units working within state companies was a declaration that capacities of state owned firms were not totally utilized. Using incentives this part of the capacities could be mobilized. In case of cooperatives small units within the coop was organized and they worked under a kind of market umbrella. They did their best to reduce production costs and increase farm gate prices as much as they could. People were more interested in producing profits as their income depended on the latter in more extent. Such changes in economic environment helped to enhance cooperation between coop members in order to achieve better economic results.

People’ attitude towards cooperation and working with each other has changed significantly since radical reforms. Due to government policy, privatization and compensation have generated more collar and shirt people. Compensation on land was not well prepared and managed, envy could be experienced more. On bidding for land envy could also be observed. Level of trust among people has declined and members have become more cautious when question of additional step on cooperation was raised. Some feedback was given mentioning that there have been too much politics in professional issues while on the other side liberal policies was mentioned for changing people’ attitude towards cooperation into a wrong direction.

Concerning the changing role of government on the issue interviewees were rather critical. The majority of responses made clear that trust towards government/local government has been deteriorated, it was stronger in case of PMCHG and, there was only one people out of ten responded saying trust towards government has been improved since the beginning of the transition. It was also mentioned the measure of change in compare with socialist period, the level of declines in trust towards to government has been also up to the ruling government. In one case the direction and measure of change was not so bad, while under another ruling party it was.

The experience of individuals with state bureaucracy has been a mixture. Increased level of bureaucracy was underlined as negative developments. Members of Coop „BÉKE” have been mostly unsatisfied with the performance of the state in their own cases while the members of Coop, PMCHG were more positive. In general, people were disappointed concerning the performance of the state and agricultural policy. Taking into account EU membership some people indicated from PMCHG that not sufficient experience has been accumulated and no clear answer could be given to question raised, while Coop “BÉKE” members had a more stable standpoint underlining people were worried about their future and, the following aspects were highlighted:

a. weakness of the preparation work for EU membership,
b. the stronger competition under EU 25 where Hungarian producers have to compete,
c. increase need concerning the quality of farm products and,
d. people are not better off with EU membership.

Concerning the optimism for EU institution the feedback was neutral from PMCHG as two people thought EU institutions were better, two emphasized the national institutions were better and one had no sufficient experience on the issue. Members of Coop „BÉKE” also declared that not sufficient experience has been gained yet which did not allow them making a stable opinion on the issue. However, they added there was more optimism for EU institutions prior to accession but after waking up in the EU one has had to realize more jobs left to be made.

**Hypotheses 4: Prior to reforms social capital in CEE countries was low.**
The state and its formal institutions have helped a lot to improve cooperation in agricultural cooperatives since 1967 up to 1989. The social capital was, indeed, relatively low after organizing cooperatives across the country finished in 1961. However, by putting into practice a new economic mechanism into agriculture in 1967 the picture has changed. Due to the new incentive system social capital has been developed as economic environment has become a mix of centrally planned and market economy one. So social capital has not been low in Hungary during the seventies and eighties of the last century. The hypotheses can not be justified.

6.5. Role of communities, social networks and informal institutions

Research question: are informal institutions a necessary determinant of achieving cooperation?

How much people were interested in cooperation? Were they in favor for it if, direct benefit could be recognized for others only? How strong efforts people were willing to make deepening the level of cooperation?

The motivation helping the community is strong in both coops, even if no direct benefit is available from it, but it does for others. People were ready to work in the local community if some of the community members could benefit from it. The latter shows, the general attitude towards cooperation among coop’ members is very community oriented. Helping others was always a good feeling. The commitment to helping enhancing cooperation is rather strong if it demands time efforts only. People have internal motivation that they have to give help if no other source than time had to be used. However, if in addition to time efforts, money also had to pay for community development then less people were ready to contribute to further cooperation if it does benefit for others only. However, in the latter case the positive response was as high as 70 per cent. It indicates that people were not afraid if even some money also needed to be paid to support cooperation when there was no direct benefit for them, but for others. The picture, however, is different between the two coops. All PMCHG members interviewed were willing to sacrifice more and would be willing even to pay money as well. In Coop „BÉKE” members with more experience from the past were also supportive for improving cooperation and two people out of five were ready to make financial contribution as well, but three offered only time efforts but not cash contribution. They expected direct benefits for themselves if financial contribution is required to improving cooperation in the community.

During business activities conflicts may have occurred in the community. What sort of mechanism has been available for problem solving? Were the mechanisms formalized or were they informal? How did members feel it?

Coop members of PMCHG were in favor for more open minded approach. Majority of interviewees thought discussing and spoken out given conflict was the solution. For major issues the by law of the coop had to be used. Members of Coop „BÉKE” mentioned both formalized and informal mechanism could take place to find solution for the conflict. In case of recognizing a problem people in the two coops would take action to solve, however, all members from Coop “BÉKE” would approach the individual who they sought had caused the problem first, and not to go to leaders or asking the entire group to discuss it. A face to face clarification was preferred to make clear the necessary decision. In Coop PMCHG, which is a smaller community, in handling conflicts people preferred to address the
problem to the group leader or having a meeting for the entire group. Only one responded indicating that the best solution was to approach the people who caused the problem.

As far as the clique is concerned people in PMCHG did not recognized that it existed in the group, or at least it was not indicated as a typical problem. In case of Coop „BÉKE” where community was much bigger two members mentioned that such cliques existed, however, the same number have not had information about them at all. Cliques mostly did not exist in smaller community, but they did if the group has many members.

Cooperation is affected by several factors. One may be of great importance in one case while other factors are decisive in other cases. All Factors (8) listed were found very important or somewhat important in both coops, but in average stronger support was given by members of Coop „BÉKE”.

One, people in PMCHG did not think that active involvement of the local community is an important factor affecting cooperation. This factor was also at the end of ranking by Coop „BÉKE” people, but still strongly emphasized. All the nine members who responded underlined the factor of keeping well informed and having sufficient information to make decisions was the number one factor. In other words, cooperation could not be strong and deep if people were not involved in decision making, but the latter partly depended on how much the members were informed on business issues. Besides that, high level of trusts was mentioned as second most important factor in both Coop „BÉKE” and Coop “PMCHG”. In the latter case it was even added that actors should understand each other and sharing the same objectives. In the third line coop members in “BÉKE” listed the market driven incentives for cooperation, actors understanding each other and sharing the goals, and past experience of all steak holders with working together. Having good communication between all actors was also somewhat important in both coops, although keeping well informed was the decisive factor. It indicated that people could get important information through other channels than only communication with each other.

Answering the research question it can be emphasized that informal institutions were not necessary determinant of achieving cooperation. People could efficiently use the advantage of formal institutions and only very seldom tried to find solution in informal way.

6.6. Role of market and competition in fostering/hindering cooperation

Research question: How does the market environment affect cooperation?

Issue of sustainable agriculture has been continuously discussed in the literature and communicated to agricultural producers through media. However, approach of individuals based mostly on their own position and to a less extent on a global basis. Members in PMCHG used a practical approach saying that agriculture is sustainable until it is profitable. Those who have been suffering to become profitable simply gave an answer as agriculture can not be sustain, two people admitted not bearing the content in mind what sustainable agriculture means. Because being disappointed due to latest development in agriculture in the country most of interviewees from Coop „BÉKE” also thought agriculture can not be sustainable. Very much depend on subsidies available for the sector – they said.

All people interviewed have applied for subsidies and all of them except one got area payments, in addition, subsidy for natural gas tube network, buying gasoline, to support self supply farms and agro-environmental measure were also mentioned. Concerning environmental friendly agriculture people found different areas of worth to underline. Organic farming was the leading one by three people, two
answered: none of them were in line with their interests. Besides them activities which were subsidized, or helping to change product structure, or gaining energy from agriculture were mentioned as important factors.

Competitiveness of the coop was evaluated at different level. In case of PMCHG one member found the coop competitive, two thought the coop was competitive at middle level, and two people gave no answer. People from Coop „BÉKE” used the argument if the coop had been doing farming for 50 years then it should be competitive. Others mentioned the coop was under pressure in this field. It was also emphasized that, now days neither foreign, nor domestic market share of the coop can be regarded as stable which makes the position of the coop more difficult. How the marketing could help selling the product? At this point there was only one answer out of ten reflecting that marketing as offensive approach was still not in the right place of thinking of coop members. Knowledge of members on markets was rather weak as no answer was given dealing with any trends, except one emphasizing a general downward trend for grain and pig.

Tourism was not found as activity which might be a solution of regional or local problems. Only one people in PMCHG thought that rural tourism could help a bit in generating more income. In Coop “BÉKE” also one member found that rural tourism could help, while another response mentioned it depends on feasibility study. Only one people out of the ten interviewed had an idea how to solve current problems of the local region. The solution was related to the development of a small region including three settlements as Hajdúnánás, Hajdúdorog and Hajdúböszörmény and the responder has been working on this project too.

**Hypotheses 5: Although, market is based on competitive forces, a network of cooperation is nevertheless required for its sustenance.**

The hypotheses was justified as people found market forces important and underlined the need for cooperation to become competitive and meeting market needs.

**7. Conclusions**

People in the two coops have had different experience from socialist area and gone through different way of development since radical reforms.

Members of Coop “PMCHG” were partly former farmers and former coop members. They started to build up the new house of cooperation using a bottom up approach, backed by experience gained during individual farming and justified by reducing transaction costs. On the other side members of Coop “BÉKE” have had successful development since middle sixties to late eighties and wanted to maintain the high level of coop farming after radical reforms. They have strongly believed in cooperation as their experience from the past has supported this in a great extent. Their high level of trust in leaders rooted back many years.

In case of both coops it turned out that high level of trust is an effective means of reducing transaction costs, however higher level of trust be based only by own or partially at least on parents’ experience. The latter has been proved a stronger factor for members of Coop “BÉKE” and provided evidence that social capital of coop members during socialist system was high.
The role and challenge of leadership was partly different in the two coops. In Coop “BEKE” the major goal of leaders was to avoid breaking up the coop after political turn. As they have had high level of trust from members and were skilled people they could manage to maintain the coop frame during the transition and even were able to enlarge the size of farming by merger and leverage buy outs. In case of PMCHG the main job for key persons was to persuade individual farmers to start cooperation, first by collecting and sharing information in order to reduce transaction costs. Later on by buying certain inputs, marketing the products, fixing quality for outputs, making post harvest investments together to increase competitiveness. So leaders and key actors in PMCHG were initiators of building the new “COOP HOUSE” while leaders of Coop “BEKE” focused on to avoid breaking up the “COOP HOUSE”. Leaders of both coops were succeeded which was an evidence that leadership play important role in cooperation and, even able to manage the transition of traditional coop without break up.

Based on different experience from the history trust towards formal institutions differs in the two coops. Due to bad experience in agricultural policies during the last 10-12 years members of “PMCHG” have lower level of trust in current government officials and EU institutions. In contrast Coop members of “BÉKE” trust stronger in national government and that in EU institutions were also above average.

It was justified that the level of communication affects the level of cooperation and, the latter has not been handicapped by shortage of information in either coops. Communication has played very important role in improving cooperation in both coops and, people have been satisfied with the level of internal communication. Concerning withholding information by central actors one can conclude that communication, in the two coops has not been used as power by central actors, but as a bridge through which more help can be given to members.

In order to reduce transaction costs change in governance structure could also be observed in both coops. In PMCHG it happened step by step where positive experience from previous time provided the basis to increase level of trust in leaders. In Cop “BEKE” Governance structure has also been changed prior to transition in order to improve efficiency of farming. However, it has to be mentioned that establishing a new governance structure fit to current needs is one of the challenges leaders of Coop “BEKE” face. However, the high debt and having half of the business shares in the hand of government mean uncertainty concerning future development.

People can find their own way to solve problems relying on formal institutions, however if the latter does not work they take the advantage of informal institutions. For members of Coop “PMCHG” probably informal institutions have played a more important role at the very beginning of cooperation. However, after that it turned out that without establishing formal institutions (as Farmers’ Club, purchasing coop, purchasing and marketing coop cooperation could not be further improved and transaction costs as well as production costs decreased.
References

7. Interview with JAKAB, István, President of National Federation of Farmers
8. Interview with KUTASSY, Sándor, Director of Coop „BÉKE” Hajdúböszörmény.
9. Interview with MÁRTON, Deák, Head of Purchasing and Marketing Cooperative “HAJDÚ GAZDÁK”.

List of interviewees in the two coops using standardized questionnaire.

A. Agricultural Coop „BÉKE”
1. Mr. KISS, Sándor head of unit (pig production), member
2. Mrs. FEKETÉNÉ, DEÁK Zsuzsanna chief accountant, member
3. Mr. LOÓS, István investment expert, member
4. Mrs.: HAGYMÁSI, Imréné expert, member
5. Mr. BODNÁR, Lajos Head of Unit of Economic Analysis, member

B. Purchasing and Marketing Coop „HAJDÚ GAZDÁK” (PMCHG)
1. Mr. BOJTI, Tibor member
2. Mr. SZABÓ, Antal member
3. Mr.: BERECZKI, Gábor member
4. Mr. KOMPÁR, Imre member
5. Mr.: FEKETE, István member