doi: 10.17221/190/2014 -AGRICECON

Overcoming the legacy of the past? Analyzing the modes of governance used by the Polish agricultural producer groups

Volker BECKMANN[1], Ilona M. OTTO[2,3], Rong TAN[2]

[1]*Faculty of Law and Economics, Ernst-Moritz-Arndt-University Greifswald, Greifswald, Germany*
[2]*School of Public Affairs, Zhejiang University, Hangzhou, China*
[3]*Potsdam Institute for Climate Impact Research, Potsdam, Germany*

Abstract: The cooperative movement in Poland has a long but difficult history, which has caused farmers to have an aversion to cooperatives. Nonetheless, in the early 1990s, the first farmers' cooperative marketing organizations, which were called agricultural producer groups, appeared in the market. These groups are bottom-up, voluntary organizations the primary purpose of which is to jointly sell their members' output. In this paper, it is investigated why the new forms of governance, namely cooperative arrangements, were chosen, and we evaluate the implications of these choices on the market success of these groups. Empirical data were collected from 62 producer groups in one Polish province. We found that the groups were typically functioning as associations, unions, and limited liability companies. The factors that had an impact on the choices made were the number of members and the specific investment per member. Additionally, if the initial investment level was low, not only set-up and operational costs but also tax considerations played a role in the decision. Therefore, we argue that the new bottom-up cooperatives, which are theoretically suitable when the start-up capital is high or the number of members is large, will gradually be recognized and accepted in the market despite the fact that these cooperatives have a "bad reputation" caused by the socialist legacy. The new cooperative development trend confirms this argument.

Key words: co-operatives, governance, organizational choice, Poland, socialist legacy

Polish agriculture has suffered from structural problems for many years; these problems occur mainly in small farms due to a surplus of labour, old and inefficient machinery, and a lack of investment. The establishment of farmers' cooperative organizations, which can help farmers by increasing the amount of goods offered in the market, providing savings on transaction costs, and eliminating some portion of the profits conventionally gained by the middlemen, may be an important response to this type of problem.

The cooperative movement in Poland, however, has a long and difficult history, which has caused farmers to avoid cooperation. After the World War II, the socialist regime introduced a command-and-control system to cooperatives that was destructive to their self-governing functions, eventually leading to the lack of member involvement. Cooperative members – the state-assigned cooperative leaders included – were unable to make their own decisions. As the socialist firms grew in size, their members adopted a wage-worker mentality in relation to the enterprises and their property, resulting in severe inefficiencies (Chloupkova et al. 2003: 249). Brodzinski (1999: 168) mentions that Polish farmers who used to be members of the socialist cooperatives retain a distorted view of the cooperative movement. They associate the cooperatives with a lack of control and a limited impact on the decision-making.

Nonetheless, in the early 1990s, the first farmers' cooperative marketing organizations, called *agricultural producer groups*, appeared in the market. Producer groups are bottom-up, voluntary organizations the main purpose of which is to jointly sell their mem-

Supported by the National Science Foundation of China (Project No. 71273008; 71350110520).

doi: 10.17221/190/2014 -AGRICECON

bers' output (Malysz 1996: 13–14). The sale of the members' output improves their market position and may lead to higher prices. Additionally, the farmers in cooperatives may benefit from the information and knowledge sharing within the group. The formation of producer groups does not, however, imply a change in the property rights associated with the means of production. The farmers jointly owe only the profits that were created as a group; they do not merge their farms.

Although the producer groups function similarly to marketing cooperatives, farmers establishing producer groups have been choosing legal forms other than cooperatives. The legal form of a cooperative is only adopted by approximately 2% of the producer groups (Banaszak 2008a: 76). Other groups function as limited liability companies, associations, unions, and informal groups that are not registered by the legal courts.

Throughout this paper, we investigate why these new forms of governance via cooperative arrangements were chosen. We also investigate the implications of the governance choices for the cooperative groups' market success.

Several authors have investigated the impact of a formal institutional environment on the functioning of cooperative organizations. Hanechan and Anderson (2001: 6–8) have focused mainly on the importance of the external support during the process of establishing cooperative organizations. Ziegenhorn (1999: 68) has drawn attention to the role played by the policy makers and extension advisors in providing and fostering agricultural improvements. Katz and Boland (2002) have analyzed the emergence of the New Generation Cooperatives (NGCs). These new cooperatives appear mostly in the niche markets, and they are characterized by the closed membership and a fixed amount of product, which must be delivered under the threat of sanctions, which will be levied if the members do not fulfil their obligations. The NGCs introduce tradable shares and ownership into such groups, which are linked to the patronage. Ménard and Klein (2004: 754) indicate that the food and agriculture organizations' background conditions, such as agricultural policies and consumer demands, might lead to the discovery of more efficient modes of organization.

In these terms, the Polish producer groups represent an interesting case of a broader experiment associated with the use of new governance forms for cooperative arrangements. Due to the perceived inefficiencies of the traditional cooperative form, a variety of new legal and organizational solutions has emerged in this sector. However, to the best of our knowledge, no analysis has yet been undertaken regarding the organizational choices made by the producer groups and the possible impact of those choices.

CONCEPTUAL UNDERPINNINGS

Choices faced by farmers considering cooperation

A farmer who is considering starting or joining a cooperative organization must choose among a number of possible options. First, he/she can decide not to cooperate at all and to organize his/her transactions in an alternative manner. Second, an agricultural producer group is only one of several possible forms of cooperation that may exist between farmers, and this form involves joint marketing of the output produced individually by the members. Numerous forms of alternative cooperative forms exist, such as the joint machinery pools and the cooperative credit systems (Beckmann 2000: 94ff.).

The choice to establish a producer group does not determine the form of cooperation. The Act on producer groups does not stipulate which organizational form the farmers must adopt; therefore, they can choose any organizational form accepted by the Polish law or they can function as an informal group. Groups that choose to adopt a formal organizational form can choose either the non-profit forms (e.g., an association or a union) or the for-profit forms that enable the accumulation of capital (e.g., a business company); the most popular for-profit form is that of the limited liability company. Producer groups can also function as cooperatives, which are positioned somewhere between the non-profit and for-profit organizational forms (Boguta 2002: 19). Each of these forms is subject to different laws, which determine the amount of taxation and the relationships among the owners. A summary of the primary characteristics of each legal form is presented in Table 1.

The simplest form an organization may adopt is that of an informal group. This organizational form does not involve any permanent costs, and it does not bind the farmers formally. Cooperation through such groups might, however, be unstable because the members are not legally bound. Moreover, an informal group cannot officially undertake any eco-

doi: 10.17221/190/2014 -AGRICECON

nomic activity. Such behaviour violates the tax law. If, for instance, one member farmer purchases a large quantity of fertilizer and then sells it to other group members, the farmer must officially register the economic activity and pay taxes on any profits (Zarudzki et al. 2001: 25).

Associations are voluntary, self-governing organizations established to achieve the non-economic goals. The members work voluntarily for the association, which can employ either members or non-members. Associations can represent their members in the relationships with the cooperating institutions; they can also both negotiate prices and create contracts with the purchasers or sellers on behalf of the members. This form can be established easily and cheaply, and it does not require any start-up capital (Lemanowicz 2005: 103, Zarudzki et al. 2001: 26). Associations have a simple structure and low establishment and operational costs; however, the partners have no right to withdraw the accumulated capital or any profits. The accumulated capital and profits can only be spent on the organizational activities, which are defined by the statute (Legislation 1989, Art. 34).

Unions are voluntary, self-governing, independent social and vocational organizations, established to represent and to protect the interests of the individual farmers. As with associations, it is quick and simple to establish a union, and no start-up capital is required (Lemanowicz 2005: 103). Similar to the associations, unions have low set-up and operational costs. The members have a right to share or withdraw the capital; however, the profits must be distributed equally among all members (Ejsmont and Milewski 2005: 66).

A cooperative is a voluntary union consisting of at least five people. Its primary purpose is to conduct an economic activity. As with business companies, the cooperative members purchase shares, but the

Table 1. Comparison of different legal forms available to Polish agricultural groups

Characteristic	Association	Union	LLC	Cooperative
Legal foundation	Act from 7th April 1989 (*Association Law*)	Act from 8th October 1982 (*Social and Vocational Farmer Organizations*)	Act from 15th September 2000a (*Commercial Companies Law*)	Act from 16th September 1982 (*Cooperative Law*)
Purpose	Social	Social and vocational, but can also be economic	Any	Economic, but can also be social
Area of operation	No limitations	The territory of Poland	No limitations	No limitations
Members	People, or legal entities only as supportive members	People	People or legal entities	People or legal entities
Minimal number of members	At least 15 people	At least 10 persons, at least 8 of whom run a farm	One or more	At least 10 people or 3 legal entities, for agricultural production cooperatives at least 5 people
Form of the members' financial contribution	Membership fees	Membership fees	Shares	Shares
Minimal financial contribution per 1 member	Not defined	Not defined	At least one share with minimal value 50 PLN (= 13 EUR)	At least one share, its value defined by the general assembly
Participation in decision making	Equal for all members	Equal for all members	Based on the number of shares	Equal for all members
Participation in the accumulated capital	Equal for all members	Equal for all members	Based on number of shares	Based on number of shares
Member liability	No liability	No liability	Based on value of shares	Based on value of shares

Source: Adapted from Lemanowicz (2005: 102)

doi: 10.17221/190/2014 -AGRICECON

administration costs are lower than the costs for the business companies. The cooperative property is the private property of its members, and the members can withdraw the value of their shares any time. Each member, however, has the equal decision-making power, which limits the decision-making power of the major shareholders. Nonetheless, cooperatives are required to maintain a comprehensive bookkeeping. As Lemanowicz (2005: 104) notes, cooperatives are unpopular among the farmers due to the negative experiences associated with this organizational form during the socialism.

The for-profit forms of organizations, most commonly the limited liability companies (LLC), can be established by any number of people for any purpose. Their members purchase shares, and the number of shares that they own determines both their decision-making power and their liability. The shareholders are the owners of the company, and the company's accumulated capital can be divided among the shareholders according to the number of the purchased shares. However, the LLCs establishment process is more complicated and costly, and it has to be officially registered in a notary office. Similar as cooperatives, the LLCs must keep comprehensive books, and they must pay taxes on their profits (Lemanowicz 2005: 104).

The legislation also provides the legal foundation for the financial support for producer groups. The September 15, 2000, Act and its subsequent amendments enable all groups registered by their provincial offices to obtain support up to the value of 5% of their turnover in the first year and 4%, 3%, 2% and 1% in the following years. The legislation also defines the conditions for the registration in the provincial offices (Legislation 2000, Art. 19 § 1).

The choice of whether to cooperate as a producer group and which organizational form to adopt are not the only decisions that the farmers must make. The farmers also have to decide which production type will be marketed by the group, where to locate the group, and which type of the leadership and the membership structure to adopt; in addition, they must have a general concept of the group's vision and mission. The empirical evidence shows that the producer groups perform different tasks and although their main task is to organize joint sales of the output produced by the individual farmers, some producer groups are only engaged in organizing activities such as the joint purchases of the means of production, the joint transportation, training, and social events for the farmers (Banaszak 2008a).

Factors influencing the organizational choice

Producer groups operate somewhere between the markets and hierarchies. Their members do not integrate the property rights, and they do not merge their farms into the organization. It is their own decision when and to whom to sell their goods. Thus, we may classify the producer groups as hybrid organizations. Hybrid arrangements include such forms as networks, subcontracting operations, franchises, partnerships, and some forms of cooperatives (Beckmann 2000). This variety of forms is "connected by the underlying idea that they participate in the same "family" of arrangements as autonomous entities doing business together, mutually adjusting with little help from the price system, and sharing or exchanging technologies, capital, products, and services without a unified ownership" (Ménard 2005: 295). A distinctive feature of hybrids is that unlike firms, the hybrids do not integrate the property rights; the partners integrate only a portion of their resources, and they jointly assume only a portion of the decisions in their domain of choice. "The emphasis is on the commitment of distinct property rights holders, operating as distinct legal entities, but organizing some transactions through governance forms that are mutually agreed upon." Ménard (2005: 294–298) discusses the factors that contribute to the stability of hybrid arrangements. Because hybrids tend to be created in highly competitive markets in which pooling resources is a way to survive and to decrease uncertainty, the problem faced by many hybrids is how to demarcate joint decisions, how to discipline partners, and how to choose conflict-resolution mechanisms. As noted by Borys and Jemison (1989: 235), partners in hybrids often have different goals, which make the resolution of conflicting interests and the maintenance of existing agreements a central problem.

The great diversity of hybrid arrangements is not a random outcome. According to transaction cost economics (TCE), decisions primarily follow transaction cost considerations (Williamson 1991; Ménard 2005a). The forms adopted are aligned with the degree of asset specificity required to minimize transaction costs. This effect is reinforced by uncertainty. If the risk of opportunism is higher, hybrids choose organizational forms that are more advanced, thus providing better safeguards for specific investments and economizing coordination costs through centralized management (Verhaegen and Van Huylenbroeck 2002). The TCE framework also helps to explain why so many or-

doi: 10.17221/190/2014 -AGRICECON

ganizational forms are adopted by producer groups. As our review of the organizational forms available to producer groups shows, the tighter the forms of control that are implemented by the producer groups, the higher their set-up and operating costs. We may therefore expect that a producer group's choice of organizational form will be a function of its level of investment. In addition, Beckmann (2000: 121–123) argues that the number of members plays a crucial role in organizational choice. The influence of both of these factors – specific investments and the number of members – will be discussed. However, history and path dependence are also significant. That is the reason for the coexistence of many forms of hybrid organizations with different levels of integration (Ménard 2004).

The loosest and most affordable form, the informal group, will most likely be chosen by farmers who do not undertake joint investments. Associations require greater investments of time and money, and the accumulated capital of these associations is legally protected. However, the partners do not have the right to withdraw either the accumulated capital or the profits, which can only be spent on organizational activities as defined by statute. Unions have higher set-up costs; they also give their members the right to share profits, which must be shared equally among all members. The most protective – but also the most costly – organizational form, the LLC, is most likely to be adopted by farmers who make a considerable investment. A cooperative organizational form has similar start-up costs but lower operational costs. This form results in

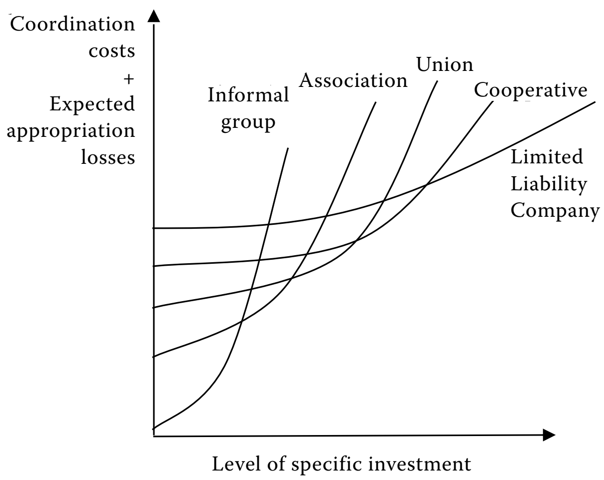

Figure 1. Coordination costs and expected appropriation losses as a function of the investments per member level in different types of producer groups

less control over the capital due to the decision-making process, in which each member – regardless of his/her invested capital – has equal decision-making power (Ejsmont and Milewski 2005: 60–69). The legal forms of an organization can be ranked from an informal group, which has the lowest set-up costs, to an LLC, which is very costly to set up. As the invested capital increases, however, the potential appropriation losses and decision-making costs of an informal group are expected to increase sharply because the invested resources are not legally protected and the members cannot appeal to a court in the event of a conflict. In an LLC, which is very costly to set up, members' property and decision-making rights are legally protected and thus, both the coordination costs and appropriation losses are expected to increase very slowly as the level of invested capital per member grows (Figure 1). We expect that the investment level and the set-up and operational costs will be the lowest in informal groups and the highest in LLCs.

A second factor affecting coordination and expected appropriation costs is the number of members. With respect to the number of members, entry and exit costs are particularly high in LLCs because any changes must be approved by a notary. Thus, we might expect these groups to have fewer members than do unions or cooperatives.

SAMPLE AND DATA COLLECTION

We collected data on the producer groups that operate in the Wielkopolska Province. One of the Poland's 16 provinces, the Wielkopolska is located in the Western part of the country. A cross-sectional research design was selected as the research method. This design employs a social survey technique, which uses a structured interview with the producer-group leaders to collect the data. Fifty functioning groups and 12 disbanded groups were used for the research. The 50 functioning groups had 4056 farmers; the 12 inactive groups had 394 farmers. The interviews were conducted in early 2005 (Banaszak 2008c).

The structured interviews with the producer group leaders were organized using a six-section questionnaire. The questionnaire sections addressed the following issues: (i) general information about the group such as its address, legal status, number of members, and activities performed; (ii) the process of the group formation; (iii) how the group functions (divided into three sections: management and decision-making,

doi: 10.17221/190/2014 -AGRICECON

production and marketing, and membership); (iv) the costs and benefits of cooperation; (v) the role of the institutional environment; and (vi) leadership. These six sections contained 132 questions. Two types of questions were asked: the first type of question was related to the facts such as the numbers or descriptions of processes, and the second type of question sought a subjective evaluation of those facts.

EMPIRICAL RESULTS

General information about producer groups

Sixty-two producer groups participated in the research. At the completion of the interview process, 50 groups were still operating, and 12 groups had ceased their activities. The geographical distribution of the groups was not equal. Most of the groups were located in the areas of Kalisz (19 groups), Poznañ (17 groups), and Leszno (13 groups). The average number of members per 1 group was 71: the smallest group, which produced fresh tomatoes, had only 5 members, whereas the biggest group, which produced potatoes, had 700 members. Most of the groups were formed in 2001.

In average, each disbanded group functioned for 2.8 years. With respect to the factors that resulted in the break-up of the group, the interviewed producer group leaders frequently referred to the so-called "mentality of the people" problem. This problem had to do with the members' commitment, loyalty, and trust in the leaders of the organization and in the other members. Two groups did not want to change their purchasers to those appointed by the leader, and in three cases, the members either did not want to compensate the leader for his/her work or did not want to hire a manager. With respect to the other cases, two groups reported having problems finding purchasers: one group was destroyed by a middleman who offered the members a higher price if they sold their output outside the group; one group was embedded in a conflict between two neighbouring villages in which the inhabitants of one village spread false information about the leader of the other village to destroy the group; and one group had a leader who kept the group's money, resulting in the members' unwillingness to continue with the cooperative.

Most of the groups produced pork (35); 13 groups produced different types of vegetables; four groups produced fruits; and three groups produced grains. Only one group produced one of the other products: potatoes, pork and cattle, hops, mushrooms, poultry, and rape. One group was described as being of a "general" character.

Twelve of the groups split up, and they were no longer functioning when the research was conducted. Of the still-functioning groups, joint sales of the members' output were performed by 80% of the groups. Seventy-eight percent of the groups organized different types of training and educational trips for their members; 68% of the groups organized joint purchases of the means of production; 56% provided integration events; and 28% provided joint transportation of the members' output. Several groups also provided other, less common types of activities. For instance, four groups organized insurance for their members; three groups sorted, packed, and stored their products together; and two groups conducted the preliminary processing of their output together (one group slaughtered pigs, and the other group dried and purified rape). Another interesting finding was that the members of one group (the tomato group) produced the product together; they also jointly owned the land and the means of production (similar to the old-style cooperative). Several other groups reported that they organized self-credits for their members (self-credits are member contributions to a common fund from which the members can obtain the emergency, interest-free loans).

Most of the groups were initiated by one of the farmers (58%). The other 42% of the groups were initiated by an outside organization: 24% were initiated by the extension service and 18% were initiated by outside business groups, such as processing companies, local agricultural cooperatives, or middlemen. In average, each group collected 6,461 Euros (EUR) as the start-up capital (365 EUR per 1 member).

The choice of legal form

The most common legal forms of the groups were "associations" and "unions." Twenty-three groups adopted the legal form of associations; 18 groups adopted the union form; 14 adopted the limited liability company form; five adopted the informal group form; and only two groups functioned as co-operatives. During the process of the group formation, other forms of cooperation were considered. Seventy-four percent of the groups considered a union as an alternative legal form; 71% of the groups

doi: 10.17221/190/2014 -AGRICECON

Table 2. Factors affecting the choice of legal forms according to legal forms

Factor	Informal groups	Associations	Unions	LLC	Cooperatives
	mean answer (1-not a factor, 2-minor factor, 3-major factor)				
Tax considerations	2.6	1.6	1.3	1.1	1
Access to debt financing	1	1	1	1.1	1
Size of membership precluded other forms	1	1	1	1.1	1
Other forms too costly	2.2	2.2	2	1.2	1

considered associations; 59% considered the LLCs; 45% considered cooperatives; and 14.5% considered the informal groups. With respect to why a particular legal form was chosen, we also asked about the role of tax considerations, the access to the debt financing, the size of the membership, and whether the other forms were too costly. The largest fraction of the groups stated that the cost of other forms was a major factor in their choice (43.5%). This issue was ranked as a major factor by 60% of the associations, 60% of the informal groups, and 50% of the unions; however, only seven percent of the LLCs and none of the cooperatives regarded this issue as the major one that influenced their choice of the legal form. The access to the debt financing and the membership size were not ranked as being important overall, except to some LLCs (Table 2).

Among the other important factors affecting the choice of the organizational form, the interviewees mentioned that they relied on the advice of a lawyer (16%), the advice of an extension service (14.5%), or the advice of other groups (1.6%). The interviewees also mentioned that the chosen form did not bind the members' capital and, therefore, it was easy and safe (17.7%). In addition, they noted that the chosen form was transparent and provided clear business rules (8.1%). Furthermore, the interviewees stated that they lacked knowledge or were not aware of other forms (8.1%); that the form was cheap (4.8%); that the form had democratic rules (4.8%); and that the form either was well perceived or that people had positive experiences with the form (3.2%).

Interestingly, a majority of the groups (71%) declared that they did not choose the cooperative form due to a bad association of this word with the old regime, and they associated cooperatives with enterprises in which stealing was rampant. Additionally, justifications for not choosing this form included the following: a negative perception of the form either by the farmers who remembered their own or their parents' experience when they were forced to join cooperatives during socialism; a negative perception of cooperatives in the market by the business partners who were afraid of signing contracts with a cooperative; the negative example of many cooperatives collapsing after the transformation; the unsuitability of the form for the "modern times"; or the need for cooperatives to include at least 1000–2000 members to be profitable. Furthermore, 9.7% of the groups did not choose the cooperative form because they preferred less binding legal structures. Eight percent believed that this form was unsuitable for investing capital due to the problems with the income distribution, high taxes, and the possible mismanagement of capital due to the one-member/one-vote principle, and six percent of the interviewees argued that cooperative laws were not sufficient. One group (1.6%) claimed that they did not choose the cooperative form because of the lack of cooperative traditions in the area. A small fraction of the groups (6%) either could not explain or did not remember the reason why they did not choose the cooperative form.

Thus, the results show that not only the set-up and running costs, but also the tax considerations play an important role in the choice of the less-binding forms of cooperation; however, these factors were not important for the LLCs and for cooperatives. In addition, neither the membership size nor the access to the external capital play a significant role.

To explore the suspected central role of specific investments and membership, Figure 2 shows the distribution of legal forms according to the level of the invested capital (vertical axis) and the number of members (horizontal axis).

As shown in Figure 2, the informal groups had, as expected, the lowest level of investment, and the LLCs had the highest level of investment. The largest producer groups, in terms of the membership, are unions and cooperatives. Multi-nominal logit regressions of the relationship between the dependent variable (legal form) and the independent variables (the start-up capital and the number of members)

doi: 10.17221/190/2014 -AGRICECON

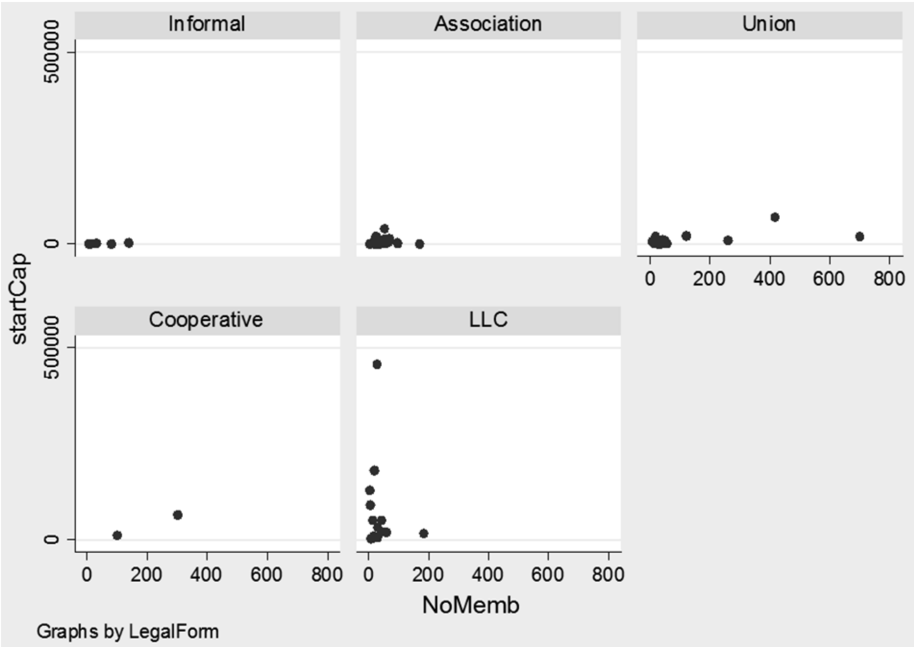

Figure 2. Distributions of groups according to the start-up capital (in PLN) and the number of members

show that the unions are chosen when the number of members is large; the LLCs are chosen when the start-up capital per person is large, and cooperatives are chosen when both the start-up capital and the number of members are large (Table 3).

The results clearly support the theoretical framework developed in the section Conceptual underpinnings. The level of specific investments per 1 member and the membership size are the relevant factors that influence the choice of the organizational form.

Table 3. Multi-nominal logit regression results for the legal forms, start-up capital, and number of members

Legal form (association is the baseline)	Independent variable	Regression results
Informal group	number of members	0.003 0.008
	start-up capital per member	–0.016 0.012
Union	number of members	0.008* 0.005
	start-up capital per member	0.002 0.002
Limited liability company	number of members	–0.001 0.009
	start-up capital per member	0.004 0.002***
Cooperative	number of members	0.011* 0.006
	start-up capital per member	0.004 0.002**
Pseudo R^2		0.264
Number of observations		62

The upper line in each row indicates the coefficient; the bottom one indicates the standard error

***significant at the 0.01 level, **significant at the 0.05 level

doi: 10.17221/190/2014 -AGRICECON

However, not only the set-up and running costs, but also the tax considerations play a role if the investment levels are low. Cooperatives combine the sizable membership levels with considerable investments per 1 member, but they also suffer from a bad reputation. It is likely that some producer groups chose the organizational forms of the association, union, or the LLC, even when the group would have done better with the cooperative form. To assess the performance, the following Section will reflect on the interviewees' self-evaluations related to the choice of the legal form.

Satisfaction with the chosen legal form and implications for group success

Only nine groups (14.5%) decided to change from their initially chosen legal form during the period of their operations. In all cases, the change was from a less binding and less advanced form to a more binding form. In three cases, the change was from an association to a union; in another three cases, the change was from a union to an LLC; and in one case, the change was from a registered partnership (a form of business company) to an LLC. In an additional two cases, some changes were also initiated; in one case, the change was from an association to an LLC; in the other case, the change was from a union to an LLC. However, in both cases, the change was not completed because the groups disbanded in the process. In the majority of cases, the change was motivated by a switch to a form that would provide clearer business rules and that would encourage the accumulation of capital (6 groups) or that would enable the group to obtain subsidies for producer groups from the government (2 groups).

Overall, 62.9% of groups declared that they were satisfied with their current legal form; 11.3% were partially satisfied; 22.6% were not satisfied; and 3.2% (two groups) were not sure. The type of form that contained the highest percentage of groups that were dissatisfied with their legal form was that of the association. The highest satisfaction rate was found among the groups that were functioning as cooperatives and unions (Table 4). It is worthwhile to note that, although cooperatives had a bad reputation, the level of satisfaction with this organizational form was actually the highest.

Dissatisfaction was primarily related to disappointment because the chosen form did not bind the members and their capital. Consequently, there was a low commitment or a perception that the form was not advanced enough to operate in the market or to obtain subsidies. One interviewee made the following observation:

"We wanted to escape from accounting but it was impossible. Accounting is necessary for the transparency within the group. In addition, if we have had decided at the beginning to establish a company or a cooperative and to pay shares, the members would have been more attached to the group. Because we did not do so, the members are selling products where they want; they do not respect what the group has agreed upon."

A few complaints, coming mainly from the LLCs, were related to the operating costs and to the bureaucracy, papers, and documents associated with the form.

Banaszak (2008b), who analyzed the determinants of success and failure for producer groups, has shown that associations were more frequently among the groups that failed than among the groups that achieved either a partial or full success. Regarding the question of why an association was chosen, we saw that the extension service had a large influence. Thirty percent of groups who functioned as associations chose this form due to the advice of the extension service. Other groups chose it because it was considered a "loose" form that did not require capital investments

Table 4. Satisfaction with the chosen legal form

Legal form/satisfaction	Satisfied (%)	Partially satisfied (%)	Not satisfied (%)	Difficult to say (%)	Total number of groups
Informal	60	20	20	0	5
Association	43.5	17.4	34.8	4.3	23
Union	77.8	5.6	11.1	5.6	18
Limited liability company	71.4	7.1	21.4	0	14
Cooperative	100	0	0	0	2

doi: 10.17221/190/2014 -AGRICECON

(17%), because it was a cheap form (13%), because they thought it provided a sufficient level of security (8%), or because the farmers were not aware that other forms were available (8%).

There is also an interesting question about the outlying groups, which are scattered on the graphs presented in Figure 2; these graphs show a possible mismatch in their governance forms. All of the outlier groups, which had either a relatively large number of members or a relatively large amount of the invested capital (one LLC group had 185 members; one LLC had invested capital close to 445 700 PLN/118 400 EUR; one union had 700 members, and one association had 171 members), were still functioning, and they were ranked as partially successful on the scale proposed by Banaszak (2008b). However, even though LLCs are the most costly form, of the three LLCs with the lowest levels of invested capital (below 6000 PLN/1550 EUR), one group was completely successful, whereas two groups failed and were no longer functioning.

CONCLUSIONS

Polish agricultural producer groups are the examples of the new forms of cooperative arrangements in agricultural markets. The functions that they fulfil as businesses and in their local communities are similar to the traditional rural cooperatives. However, due to some ideological burdens, these groups experiment with the new legal forms of governance. Among the 62 organizations that were included in the research, the groups usually functioned as the associations, unions, and LLCs. Only two operated as cooperatives.

The results show that the choices made at the beginning of the cooperation, related to the group's constitution, are crucial; they determine the ensuing operational activities. In some cases, however, this link was fully recognized neither by the agricultural extension service nor by the farmers who were interviewed. It was important for the groups' success that the legal form both provided sufficient safeguards and encouraged its members' investments and commitment.

We found that unions were chosen when the number of members was large; the LLCs were chosen when the start-up capital per person was large; and cooperatives were chosen when both the start-up capital and the number of members were large. Cooperatives combine sizable memberships with considerable investments per 1 member, but they also suffer from a bad reputation. However, according to the level of satisfaction with the chosen legal form, we also found that there was a mismatch between the type of the farmers' group and its governance form. Therefore, we believe that the actual performance of the initially chosen legal forms of the producer groups will gradually change the farmers' opinions about cooperatives.

This paper explores an unused part of a dataset that was collected in 2005 from the producer groups functioning in the Poland's Wielkopolska Province. Although the dataset has been available for almost ten years, it serves well to investigate the factors that influence the choice of legal forms of agricultural producer groups who are in the start-up stage. It can also provide further insights into understanding the change trends associated with the legal forms of producer groups. According to the most recent data (2014), there were 479 registered producer groups in the Wielkoposlka Province (UMWW 2014). The majority of these groups function as either LLCs (43.74%) or as cooperatives (49.47%). Unions only accounted for the third-largest proportion (6.58%). Associations were the least popular form (0.21%). These data show that the sector has developed since 2005, and the cooperative development trends show a gradual acceptance, as demonstrated by the grassroots cooperatives. This trend can also be found in the Poland's country report on farmers' cooperatives. For example, cooperatives in the dairy sector have a strong position, whereas cooperatives in other sectors – such as fruits and vegetables, meat, and sugar— remain small or marginal (Matczak 2012). Experts believed that the reason is the negative connotation that is associated with the name of the cooperative form (Matczak 2012).

The implications of the study are particularly interesting for the policy-makers in other transitional and developing countries where the cooperatives are negatively perceived. New governance forms of the cooperative arrangements – such as the LLCs, unions, or the bottom-up cooperatives – are promising. They are more flexible and cheaper than the traditional command-and-control forms of cooperatives, they are free of any ideological burdens, and they are well perceived in the market. The legal assistance for the cooperative organizations should be provided with caution. To ensure the members' commitment and to provide safeguards for the growth of an enterprise, it is necessary to have not only some level of the initial member investment, but also a legal framework

doi: 10.17221/190/2014 -AGRICECON

that guarantees transparency and encourages future investments.

This paper has limitations. First, the dataset that we used includes a limited number of samples. Second, we relied solely on the transaction-cost-economizing criterion to assess the organizational mode of the producer groups. It is likely that additional factors exist that impact the different groups' performance. For example, Hagedorn (2014) shows that trust among members, constructive communication regarding their problems and ideas, good leaders, and formal regulations for encouraging the cooperatives' development are important requirements for building sustainable cooperatives. Therefore, as discussed in Bijman and Iliopoulos (2014), a future research is necessary to verify the factors and characteristics required for agricultural cooperatives to perform well, not just the single criterion that was considered in this paper.

REFERENCES

Banaszak I. (2008a): Agricultural producer groups in Poland: Empirical survey results. Journal of Rural Cooperation, 36: 73–85.

Banaszak I. (2008b): Determinants of successful cooperation in agricultural markets: evidence from producer groups in Poland. In: Hendrikse G., Cliquet G., TuunanenM., Windsperger J. (eds): Strategy and Governance of Networks. Physica-Verlag, Heidelberg.

Banaszak I. (2008c): Success and Failure of Cooperation in Agricultural Markets. Evidence from producer groups in Poland. Institutional Change in Agriculture and Natural Resources, Shaker, Aachen.

Beckmann V. (2000): Transaktionskosten und institutionelle Wahl in der Landwirtschaft: Zwischen Markt, Hierarchie und Kooperation. (Transaction Costs and Institutional Choice in Agriculture: Between market, Hierarchy and Co-operation). Edition Sigma, Berlin.

Bijman J., Iliopoulos C. (2014): Farmers' cooperatives in the EU: policies, strategies, and organization. Annals of Public and Cooperative Economics, 85: 497–508.

Brodziński M.G. (1999): Stan i perspektywy rozwojowe spółdzielczości w Polsce. (The current status and development perspectives of cooperatives in Poland.) Praktyczne Vademecum Spółdzielczości, Nr. 5, Wydawnictwo SIB.

Boguta W. (2006): Organizacja i funkcjonowanie grup producentów rolnych. (The organization and functioning of agricultural producer groups.) Krajowa Rada Spółdzielcza, Warszawa.

Borys B., Jemison D.B. (1989): Hybrid arrangements as strategic alliances: Theoretical issues in organizational combinations. Academy of Management Journal, 14: 234–249.

Chloupkova J., Svendsen G.L.H., Svendsen G.T. (2003): Building and destroying social capital: The case of cooperative movements in Denmark and Poland. Agricultural and Human Values, 20: 241–252.

Ejsmont J., Milewski R. (2005): Podstawy prawne tworzenia i dzialalności grup producentów. (Legal basis for forming and functioning of producer groups.) Fundacja Wspomagania Wsi, Warszawa. Available at http://www.witrynawiejska.org.pl/images/15208_grprod.pdf (accessed 30.03.07).

Hagedorn K. (2014): Post-socialist farmers' cooperatives in Central and Eastern Europe. Annals of Public and Cooperative Economics, 85: 555–577.

Hanehan B.M., Anderson B.L. (2001): Considering Cooperation: A Guide for New Cooperative Development. Department of Applied Economics and Management, College of Agriculture and Life Sciences, Cornell University, Ithaca.

Katz J.P., Boland M.A. (2002): One for all and all for one? A new generation of co-operatives emerges. Long Range Planning, 35: 73–89.

Lemanowicz M. (2005): Organizacje i Grupy Producentów Szansą na Poprawę Konkurencyjności Polskiego Rolnictwa. (Producer organizations and groups as a chance for improving the competitiveness in Polish agriculture.) Wydawnictwo SGGW, Warszawa.

Małysz J. (1996): Procesy integracyjne w agrobiznesie. (Integration process in agribusiness.) Wydawnictwo Centrum Doradztwa I Edukacji w Rolnictwie w Poznaniu, Poznan.

Matczak P. (2012): Support for Farmers' Cooperatives; Country Report Poland. Wageningen UR, Wageningen. Available at http://edepot.wur.nl/244810 (accessed 30.12.2014).

Ménard C. (2004): The economics of hybrid organizations. Journal of Institutional and Theoretical Economics, 160: 345–376.

Ménard C. (2005): a new institutional approach to organization. In: Ménard C., Shirley M. (eds): Handbook of New Institutional Economics. Springer, Dordrecht: 281–318.

Ménard C., Klein P.G. (2004): Organizational issues in the agrifood sector: Toward a comparative approach. American Journal of Agricultural Economics, 86: 750–755.

UMWW (2014): List of producer groups registered in Wielkpolska. Urzad Marszalkowski Wojewodztwa Wielkopolskiego. Available at http://www.bip.umww.pl/portal?id=59400 (acceseed 30.12.2014).

doi: 10.17221/190/2014 -AGRICECON

Verhaegen I., Van Huylenbroeck G. (2002): Hybrid Governance Structures for Quality Farm Products. Institutional Change in Agriculture and Natural Resources, Vol. 6., Shaker, Aachen.

Williamson O.E. (1991): Comparative economic organization: the analysis of discrete structural alternatives. Administrative Science Quarterly, 36: 269–296.

Zarudzki R., Przepióra A., Futymski A. (2000): Poradnik lidera grupy producentów rolnych. (A handbook of a producer group leader.) Agrolinia, Poznan.

Ziegenhorn R. (1999): Networking the Farm. The Social Structure of Cooperation and Competition in Iowa Agriculture. Asgate, Aldershot.

Legislation

Act from 7th April 1989, Prawo o stowarzyszeniach. (The law on associations.) Dz.U. z 1989, Nr. 20, poz. 104 z póź. zm.

Act from 15th September 2000, Ustawa o grupach producentów rolnych i ich związkach oraz o zmianie innych ustaw wraz z kolejnymi zmianami. (Bill on producer groups, their associations and on changing previous bills and their amendmends.) Dz.U. 2000, Nr. 88, poz. 983.

Received: 27th October 2014
Accepted: 13th February 2015

Contact address:

Rong Tan, School of Public Affairs, Zhejiang University, Yuhangtang Road 886, Hangzhou 310058, China
e-mail: tanrong@zju.edu.cn