

# SUPPORTING PRODUCER GROUPS – INCREASING PRODUCER’S VALUE ADDED?\*

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Cooperation between entities can be the basis for improved competitiveness. The Czech Republic and the Slovak Republic were able to draw on EU funds to support the formation of producer groups. Main objective was to investigate whether the funds have led to an increase of value added of products placed on the market. In the Czech Republic and the Slovak Republic during the reporting period the sum of 44 million EUR was provided to support the establishment of marketing organizations, 305 producer groups were supported. Many of the supported entities are no longer active. In the Czech Republic, only 15 entities are still operating, but they do not have a significant impact on the increase of value added of the agricultural sector. In the Slovak Republic, entities supported in the first programming period (2004–2006) have a higher share of the generated value added. During the second funding period (2007–2013), the supported groups showed a negative value added. Given the characteristics of supported groups, the number of successfully supported groups, the reported features and the total value of generated value added, it can be suggested that most of the entities were established due to the relative ease of fundraising.

Marketing cooperatives, Czech Republic, Slovak Republic, support, Rural Development Programme, common agricultural policy, European Union



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## INTRODUCTION

Cooperation between various entities can be the basis for improved competitiveness of enterprises (Zheng et al., 2012; Marcos-Matas et al., 2013) especially in a situation where a large part of agricultural entities depend on subsidies (Prasilova et al., 2011; Vlasicova, Naglova, 2015). Many authors define the importance of the collective organization of producers (e.g. Hulka, 1931; Stryjan 1992; Bijman, 2002; Bouckova, 2002; Banaszak, 2008; Higuchi et al., 2010), and therefore it is not appropriate to downplay their role in society. Membership in such structures not only strengthens the social capital of the society, but it also often means

an economic advantage for its members in the fight against market failure (Baldwin, Spreen, 2012). Since it is generally known that the social capital required for a spontaneous cooperative action in post-communist countries is at a low level (Chloupkova et al., 2003; Gajdos, 2005; Lostak et al., 2006), it cannot be expected that collective action (e.g. in a marketing organization) is formed without an external impulse or as Lubell et al. (2002) stated, without a common problem that initiates a collective action.

In the context of the accession of new member states to the EU in the years 2004–2007, these countries were able to draw on EU funds to support the formation of producer groups. According to Kotyza, Tomsik (2014), funds from the Rural Development

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Table 1. Average annual labour costs in agricultural industry (EUR per employee and year)

	2007	2008	2009	2010	2011	2012	2013
Czech Republic	9 451	11 540	10 739	11 755	12 430	12 699	12 720
Slovak Republic	N/A	10 418	10 403	10 752	11 400	12 012	12 552

N/A = value not available

source: Czech Statistical Office, 2016; Statistical Office of the Slovak Republic, 2016

Programmes (RDP) have certainly not led to establishment of a large amount of stable marketing entities. However, the question remains whether the funds have led to an increase of value added of products placed on the market, which was one of the objectives set by the governments (Government of the Czech Republic, 2004; APA, 2006). Other objectives included in the measure were e.g. (i) adapting the production and output of producers who are members of such groups to market requirements; (ii) joint marketing of goods, including preparation for sale, centralization of sales and supply to wholesale buyers; (iii) establishing common rules on production information, with particular regard to harvesting and availability. Evaluation of these objectives does not belong among the aims of this paper; therefore it will not be further reflected.

The measure of the RDP, which was used for the allocation, was enshrined in European legislation (Council Regulation (EC) No 1257/1999: Article 33d; Council Regulation (EC) No 1698/2005: Article 35). Under the legislation, recognized producer groups were allowed to draw for the period of 5 years non-special-purpose funds, the level of which depended on the value of production supplied to the market, to a maximum of 390 000 EUR. Given the amount of supported entities in the Czech Republic, the maximum contribution was reduced to mere 11 220 EUR per year.

## MATERIAL AND METHODS

Based on the pre-assessed analysis (Kotýza, Tomšík, 2014) it was known that the funds provided in the first programming period (2004–2006) were better used in the case of Slovak producer groups – revenues of Slovak groups formed a higher proportion of total output of the agricultural industry. But the question of generating value added, one of the main objectives of the measure, was not dealt with.

The main objective of this paper is to evaluate whether the support for the establishment of producer groups, which has been paid for by the RDP in the Slovak Republic (SR) and the Czech Republic (CR), has led to the creation of added value of the supported entities, and/or to the creation of added value within the agrarian sector. Within this article the financial results of the supported entities, which are avail-

able from the Collection of the Documents of the Commercial Register of the Czech Republic (or.justice.cz) and the Slovak Republic (www.registeruz.sk) are evaluated. In the Czech Republic, the producer groups supported only in the programming period 2004–2006 are inspected, since in the next programming period the support was not provided. In the case of the SR, entities of the programming periods 2004–2006 and 2007–2013 are assessed. Data were collected and updated in August 2016.

All newly established producer groups, which were supported by the CR and SR, are at first categorized into 3 groups according to the proposed methodology (Kotýza, 2015). The actual classification is based on the examination of each subject in publicly available databases for signs that might indicate whether an entity can still carry out marketing activities and that does not contradict the given conditions of the programme after the end of state subsidies. In this way, 3 groups were created: (i) producer groups which have not been engaged in marketing activities any more, or contradicted the conditions of the programme; (ii) still functional producer groups (also called successful); and (iii) entities for which it was not possible to find out the required amount of information.

The evaluation of the success of creating value added depends on a number of successful producer groups, which, several years after the termination of funding support still perform marketing activities for the group of their members. For the purpose of this article, the value added (VA) is calculated from data of the profit and loss account as:

$$VA = \text{sales margin} + \text{production} - \text{production consumption}$$

For the actual creation of value added it is therefore necessary that the producer groups either generate sufficient sales margin, and/or acquire factors of production that are needed to generate value added (labour, capital). Evaluation of creating value added and its structure was carried out in the period 2009–2015 with the still-functioning producer groups.

According to the research of Sexton, Iskov (1988), the existence of professional management is one of the basic conditions for the success of an agricultural producer group. Management existence is seen through personnel expenses, which are compared with the average cost per employee in agriculture (Table 1). Producer groups which show the person-

Table 2. Comparison of regulations for grouping recognized in 2004–2006 (EUR)

EUR	2004–2006		2007–2013
	Czech Republic	Slovak Republic	
Number of supported groups	208	34	63
Total paid subsidy	18 850 368	9 349 583	15 820 920
Number of successful groups	15	17	17
Average marketed value per one supported group	8 583 277	16 221 564	11 580 886
Average amount of received subsidy payments	90 627	274 988	251 166
Sourced (% from maximal amount possible)	49.78%	70.51%	64.40%
Amount of EUR provided to unsuccessful groups	17 255 554 (92%)	4 354 468 (47%)	11 778 957 (74%)

nel expenses lower than average either have no staff, employ part-time, or provide sub-standard salary. This is therefore incompatible with the condition of professional management and can significantly affect future success. The second factor is capital characterized by Samuelson, Nordhaus, 1998 as durable goods (fixed assets), which are acquired in order to produce other goods. In common understanding a question is what a company can produce if it does not have any of these mentioned factors of production.

With regard to the above-mentioned theoretical basis, the following information was observed by all supported producer groups (for which relevant data were available): revenues, sales margin, fixed assets, personnel expenses, and value added.

To compare the supported entities with agricultural cooperatives in Western Europe, the list drawn up under the project Support for Farmers' Cooperatives (Bijman et al., 2012a) was used. The list always characterized the five largest collective entities in the sector. For Central Europe, entities mainly from the milk and cereal sectors were characterized as relevant. From the annual reports of the most important entities of four selected Western European countries (Italy, the Netherlands, Denmark, and Sweden), the financial characteristics of these leading marketing organizations were processed. They serve as a guide model for the comparison of indicators of the entities operating in the CR and the SR. These indicators are: (i) Fixed assets/assets, (ii) Operational profit/revenues, (iii) Personnel expenses/revenues.

## RESULTS

Within the programming periods 2004–2006 (hereinafter 'RDP 04') and 2007–2013 (hereinafter 'RDP 07'), a total number of 305 producer groups were recognized and supported in the CR and the SR (Table 2). There was a significant contribution of the Czech Government Regulation No 655/2004 Coll. (Government of the Czech Republic, 2004) because it vaguely

defined conditions for recognition and did not define the maximum number of producer groups for recognition, required only 2 entities to establish a producer group, and did not prohibit mutual interconnection of the assets. Such conditions motivated a large number of companies to establish joint marketing entities – 208 in the CR altogether. In the SR the number of possibly recognized producer groups was limited, therefore the total number of recognized groups for both programming period reached only 34 entities in the first and 63 entities in the second programming period. In Table 2 it is clearly evident that the subsidy title has led to greater efficiency in the SR, where 34 entities (35%) out of 97 are still defined as successful, while in the CR only 15 supported groups (7%) are successful. At the same time the data in Table 2 show that the groups on average received a subsidy of 1.06% (CR) and 1.7% (Slovak Rural development programme, programming period 2004-2006, hereinafter 'SR 04') and 2.17% (Slovak Rural development programme, programming period 2007-2013; hereinafter 'SR 07') of the production delivered to the market.

Table 3 clearly shows the number of entities that are either terminating their operations, changing the purpose of business or no longer fulfil the conditions of provided subsidy (change in the number of members or agricultural production, members are not agricultural producers). As it is evident from Table 3, in the CR subjects were closed or did not meet the necessary conditions during the disbursement of subsidies. In this regard, the situation was exceptional in comparison with the SR, but it can be attributed to the reduced amount of the maximum subsidy to 11 220 EUR per year, which largely discouraged entities to continue with the marketing activities. However, despite the reduction in the maximum amount of the subsidy, in the CR a major diversion from the marketing activities can be seen in the years 2011–2013, i.e. after finishing disbursement of subsidies.

As mentioned above, the main focus of this article is to examine whether the supported subjects had basic predisposition to generate value added, which is cal-

Table 3. Number of producer groups that failed sourcing conditions by year

Year	2004–2006		2007–2013
	Czech Republic	Slovak Republic	
2005	1		
2006	3	0	
2007	2		
2008	0		0
2009	5	1	
2010	21	1	
2011	58	5	
2012	63	5	
2013	22	3	8
2014	9	0	12
2015	0	2	26
Total (share of total subjects supported)	184 (88%)	17 (50%)	46 (73%)

shaded cells indicate years when funding was carried out

culated from their own production, provided services, generated sales margins, and output consumption. In order to generate value added, the entity necessarily has to carry out business activity and generate a sales margin, or the entity has to have factors of production which allow forming the required outputs. However, as it is clear from the available data given in Tables 4–6, that a large number of supported groups did not have these predispositions, large number of organisations did not have enough production factors of labour and capital. In the CR, 80% of the entities did not possess the long-term capital during disbursement of subsidies; the other 10% of the entities did not have investment assets of more than 10 000 EUR. In the SR even more than 90% of the entities showed no investment assets in the programming period 2007–2013.

A similar situation can also be observed in the term of employees. The available data show that 58–65% of the Czech entities were without employees and/or showed no personnel expenses. After taking into account the average wage cost per employee in agriculture we find that only 15 (2012) to 28 (2007) of the Czech entities incurred costs that matched the average personnel costs spent on at least one employee in agriculture. This means that personnel expenses in more than 80% of the entities did not reach an average salary. In the SR, 53–73% of the groups did not provide average salary in the first programming period, in the second programming period the average salary was not paid in 89–97% of the entities.

Based on the above data, it is evident that the value added could not be largely created by employees, nor from the use of tangible fixed assets. Both in many cases did not exist, but the value added was created mainly from generated sales margins.

Since the marketing groups can be considered service/trading entities, an achieved sales margin is an important indicator of the success of such entities as well as it is an important factor for value added creation. As a trading entity, a producer group does not perform any production, therefore without sales margins the entity has no resources to finance its own development and to cover personnel expenses.

It is also possible to characterize activities of the supported producer groups in the CR and the SR by similarities in the profit and loss statements in the items of sales margins and revenues from sold goods. As it is evident from Table 4, more than 45% of the Czech producer groups generated no sales margin during the financing (i.e. until 2010). In the SR (Table 5, RDP 04) there is a clear decrease of number of entities that generate no margin, a major decline occurs after the completion of financing. In the second Slovak programming period the creation of sales margins is an exception. Between 2010 and 2013 – it means in the period of the full drawdown of financial funds – 60% of the entities showed a zero sales margin, and next 10% of the entities showed a negative margin. Only 14 (2013) to 19 (2011) entities showed a positive sales margin, moreover 8 (2010) to 12 (2013) groups did not gain a sales margin greater than 1% of the revenues. Overall, it can therefore be concluded that only few groups (2–9 out of 63) generated sales margins of more than 1% of revenues.

An important aspect of the second programming period in the SR is generally a negative generated value added of the groups supported from RDP 07. This aspect is based on the following facts: (i) zero or negative sales margins, (ii) no production, and (iii) high output consumption, services mainly. Many Slovak RDP 07 groups sold goods at the purchase

Table 4. Characteristics of supported groups from EU RDP 04, Czech Republic

	2007	2008	2009	2010	2011	2012	2013
Values available (max. 208)	155	154	160	155	146	126	117
Value added (null or negative)	66.5%	62.3%	61.9%	68.4%	72.6%	69.8%	70.1%
Personnel expenses (null)	58.7%	58.7%	64.5%	61.9%	62.6%	56.8%	52.9%
- Personnel expenses less than costs of one full employee	82%	86%	87%	89%	88%	88%	83%
Fixed assets (null)	80.6%	80.0%	84.5%	80.0%	75.5%	64.5%	60.0%
- Fixed assets less than 10 000 EUR	92%	92%	91%	90%	86%	84%	83%
Null or negative sales margin	45.2%	45.2%	45.2%	47.1%	61.9%	55.5%	52.3%
Revenues (null)	3.2%	3.2%	6.5%	8.4%	38.1%	51.6%	48.4%

RDP 04 = Rural Development Programme, programming period 2004–2006

Table 5. Characteristics of supported groups from EU RDP 04, Slovak Republic

	2008	2009	2010	2011	2012	2013
Values available (max. 33)	13	34	34	32	32	26
Value added (null or negative)	76.9%	76.5%	79.4%	50.0%	50.0%	38.5%
Personnel expenses (null)	38.5%	47.1%	47.1%	53.1%	56.3%	50.0%
- Personnel expenses less than costs of one full employee	53.8%	73.5%	67.6%	68.8%	71.9%	65.4%
Fixed assets (null)	69.2%	70.6%	70.6%	71.9%	68.8%	61.5%
- Fixed assets less than 10 000 EUR	76.9%	79.4%	76.5%	75.0%	71.9%	65.4%
Null or negative sales margin	61.5%	58.8%	52.9%	50.0%	43.8%	30.8%
Revenues (null)	0.0%	5.9%	8.8%	18.8%	34.4%	23.1%

RDP 04 = Rural Development Programme, programming period 2004–2006

Table 6. Characteristics of supported groups from EU RDP 07, Slovak Republic

	2008	2009	2010	2011	2012	2013
Values available (max. 63)	37	61	63	63	63	60
Value added (null or negative)	83.8%	90.2%	87.3%	87.3%	92.1%	91.7%
Personnel expenses (null)	94.6%	70.5%	66.7%	69.8%	65.1%	68.3%
- Personnel expenses less than costs of one full employee	97.3%	93.4%	93.7%	90.5%	88.9%	91.7%
Fixed assets (null)	100.0%	90.2%	90.5%	88.9%	90.5%	98.3%
- Fixed assets less than 10 000 EUR	100.0%	93.4%	95.2%	93.7%	95.2%	100.0%
Null or negative sales margin	89.2%	67.2%	74.6%	69.8%	73.0%	76.7%
Revenues (null)	62.2%	1.6%	0.0%	0.0%	0.0%	6.7%

RDP 07 = Rural Development Programme, programming period 2007–2013

price and outsourced services, material and energy consumption played minimal roles. While in the CR services accounted 86–96% of the total output consumption, in the SR it was from 46 to 75% (RDP 04) and above 90% (RDP 07).

Fig. 1 shows that in the Czech Republic the value added of the supported producer groups between the years 2010–2013 significantly increased. An increase in sales margins of two companies in 2012 and 2013 contributed significantly to this fact, but it was only temporary and it did not happen again in 2014 and 2015. This means that the VA dropped to 330 000 EUR in 2014. Figs. 2, 3 describe the situation in the SR. There is a significant impact of output on

the total value added among groups supported from the RDP 04. Value added is mainly generated from the services provided; VA from companies' own production, change in inventory and capitalisation is minimal.

Fig. 3 shows the development of the situation in producer groups supported within the second programming period. The negative value added has increased since 2012. Since 2012 an increase in margins and reduction in spending on services was observed. In 2015, the annual increase of the sale margin doubled and the output consumption was reduced (–45%, mainly by the decrease of used services). This can be considered as an indication of market-orientation. It means that the groups stopped relying on the financial support, some

of them started orienting to market conditions, while others terminated business (Table 3). An interesting fact was observed, during financing, groups showed positive economic results (Fig. 3), even though they generated zero or negative value added. The cause of the achieved positive economic results is the received exceptional operating revenues, which among others include the subsidies paid. Despite increases in VA after the end of financing, 11 producer groups of the RDP 07 showed financial losses in the years 2014 and 2015 (year-on-year cumulative loss reduced by 70%). The Czech entities reported losses only in exceptional cases, after 2012 not more than one entity per year.

The overall result of this subsidy programme is therefore negligible value added, which still functioning entities contribute to the total gross value added of the agricultural industry. The value added which successfully supported entities generated (Table 7) is not significantly high in any of the assessed countries. In 2012, when all the financial statements are available, the supported entities created 0.06% of value added in agriculture of the CR, a year later this figure stood at 0.08%. However, the years 2012 and 2013 deviate significantly from the figures of the previous years, when the VA was achieving from 0.01 to 0.03%. In 2012 and 2013 an observed increase was given mainly by a one-off increase of sales margins of two producer groups. The share of the Slovak producer groups in total VA of the agricultural sector of the supported entities under the RDP 04 is more or less constant (0.34 – 0.47%). It can therefore be concluded that the output of these producer groups virtually mirrors the development of the value added of the entire Slovak agricultural sector. When comparing the VA of the Czech (13) and Slovak (17) entities in the RDP 04, we find out that the Slovak entities, in relative perspective, created almost 18 times more added value; in absolute terms the difference is about 1.8 million EUR. However, in the SR there is a clear difference in the results of individual producer groups. One producer group focusing on vegetables (Zeleninárska spoločnosť, družstvo) contributes 50% to the total value added. Another three entities increase this figure by more than 30%, which means that the four companies create over 80% of the total value added of groups supported within the first programming period. In the CR such significant market players are absent.

Apart from the above mentioned facts, it is possible to demonstrate a purpose in establishing marketing organizations by comparing identical characteristics reported in the annual accounts and the location of the seat. Under the second Slovak programming period it became clear that the 25 entities come from geographically nearby districts and at the same time report zero margins, zero fixed assets, and zero personnel expenses. Nineteen groups were even based directly on the same address in Dunajská Streda (Hlavná 5469/60A) and three at the Čiližská Radvan (house

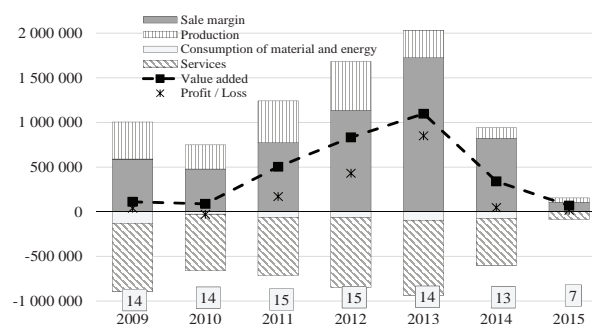


Fig. 1. Generating value added (EUR), successfully supported entities within the RDP 04, the Czech Republic

<sup>1</sup> numbers in the box indicate the number of entities for which data were available

<sup>2</sup> profit / loss of current accounting period

Note: RDP 04 = Rural Development Programme, programming period 2004–2006

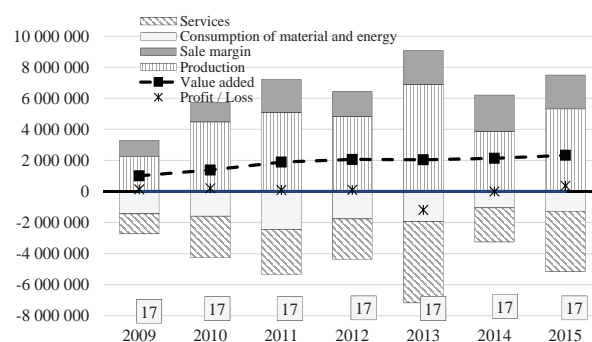


Fig. 2. Generating value added (EUR), successfully supported entities within the RDP 04, the Slovak Republic

<sup>1</sup> numbers in the box indicate the number of entities for which data were available

<sup>2</sup> profit / loss of current accounting period

Note: RDP 04 = Rural Development Programme, programming period 2004–2006

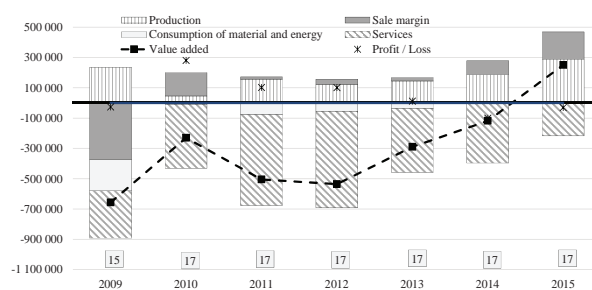


Fig. 3. Generating value added (EUR), successfully supported entities within the RDP 07, the Slovak Republic

<sup>1</sup> numbers in the box indicate the number of entities for which data were available

<sup>2</sup> profit / loss of current accounting period

Note: RDP 07 = Rural Development Programme, programming period 2007–2013

Table 7. Value added of the entities carrying out marketing activities (EUR)

		2009		2010		2011		2012		2013		2014		2015	
CR 04	$\Sigma(15)^1$	111 590	14	87 821	14	503 295	15	831 683	15	1 097 444	14	338 612	13	67 771	7
SVAAI <sup>2</sup>		0.02%		0.01%		0.03%		0.06%		0.08%		0.02%		0.01%	
SR 04	$\Sigma(17)^1$	1 091 588	15	1 385 753	17	1 886 513	17	2 063 025	17	2 044 924	17	2 141 853	17	2 327 009	17
SVAAI <sup>2</sup>		0.38%		0.38%		0.35%		0.36%		0.34%		0.36%		0.47%	
SR 07	$\Sigma(17)^1$	-657 051	15	-230 686	17	-439 250	17	-504 842	17	-274 988	16	-118 265	17	319 081	13
SVAAI <sup>2</sup>		-0.23%		-0.06%		-0.08%		-0.09%		-0.05%		-0.02%		0.06%	

SVAAI = share on the gross value added of agricultural industry, CR = Czech Republic, SR = Slovak Republic, 04 = programming period 2004–2006, 07 = programming period 2007–2013

<sup>1</sup>maximum number of groups

Table 8. Comparison of financial characteristics of marketing cooperatives

	Sample countries	Fixed assets/Assets (%)			Operating margin (%)			Personnel expenses/revenues (%)		
		Min	Max	mean	Min	Max	mean	Min	Max	mean
Milk (7)	IT, NL, SWE	23.0	63.8	47.5	-1.6	4.3	1.3	0.6	14.1	6.9
Cereals (12)	DK, IT, NL, SWE	19.0	66.7	40.9	-1.9	4.4	2.2	3.4	53.0	9.9
Milk (13)	SR (04 + 07)	0	8.3	0.9	-0.2	1.4	0.2	0	1.0	0.3
Cereals (9)	SR (04 + 07)	0	30.9	3.5	-11	6.4	0.3	0	1.4	0.3
Multiple commodities (15)	CR (04)	0	29.6	2.5	-0.8	5.2	0.9	0.0	6.5	0.7

04 = programming period 2004–2006, 07 = programming period 2007–2013

source: the author according to data available

No. 329). Additionally, 17 out of the 19 subjects from Dunajska Streda declared liquidation on the same day (May 31, 2015). These facts lead to a suggestion that in the SR these groups were formed on purpose by close persons in order to obtain funds. In the CR we meet the problems of another kind, mainly: (i) the cancellation of registration for VAT after the end of a drawdown, i.e. turnover of the entities is less than 37 000 EUR (68 cases); (ii) the winding-up or liquidation of the groups (49); the limitation of membership to only one member (30); change in the business activity (14); or mutual interconnection of the assets (11).

There are multiple success factors, which influenced Slovakian programme (mainly the first one) to gain better results: (i) Slovakian groups were selected according to their qualification criteria – number of members, volume of sales, and number of commodities. In the CR, all groups fulfilling basic conditions were financed. This led to 35 registered entities in the SR and 208 entities in the CR; (ii) the number of members was one of the criterion, so Slovakian groups consisted of higher amount of members (SR average: 10 in RDP 04 and 6.5 in RDP 07; CR average: 3.6 in 2006); (iii) Slovakian programme succeeded to establish important market players, in the CR lower support demotivated many groups (K o t y z a , 2016); (iv) in the SR milk marketing groups were recognised, in the CR milk was not included among supported com-

modities. Milk as a specific commodity requires immediate processing, therefore milk supply cooperatives have their purpose and also tradition in Central European region.

Western European marketing cooperatives are often given as a model to Central European cooperatives, including those supported ones. With regard to the specific characteristics of the newly formed groups, a comparison of selected financial characteristics of still functioning Czech, Slovak, and Western European entities was made. As is evident from Table 8, Western European entities usually work as marketing cooperatives that do not only provide collective bargaining, but also have production factors (technical equipment), that allows them increase the value added of the marketed products. For the available sample of the subjects, the share of the fixed assets on the total assets reaches, on average, 40%. In the CR and the SR, this number ranges between 2.5 and 3.5% on average. But this value is increased by several groups that evinced long-term equipment (SR) or shares in accounting units with substantial influence (CR). The situation is similar in the area of personnel expenses. While in a sample of Western Europe, the personnel expenses are paid in several per cent of the revenues (7–10%), in the CR and the SR, the average ratio of the personnel expenses is below 1%. At the same time, there is a difference even within the reported operating margins, especially in comparison to the identical

commodity groups of Western Europe and Slovakia. However, among the supported entities there are exceptions that have characteristics similar to Western Europe (Fig. 4) – e.g. cooperatives Slovsolanum (SR 36451835) or Slovchmel (SR 00493490). The remaining cooperatives are rather comparable to the type of bargaining cooperatives defined by Marcus, Frederick (1994).

## DISCUSSION

As mentioned above, the negative value added in cases of the supported entities did not automatically mean loss. The entities compensated the potential loss with received subsidies, but it means that they did not fulfil the basic prerequisites defined by Davies et al. (2004). He states that the benefits of membership must outweigh the transaction costs; otherwise the sustainability of the group is threatened.

Based on a similar sample of information for Czech entities, Abrahamová (2015) concludes that: (i) the Czech measures stimulated agricultural cooperatives to create a relatively large number of marketing organizations; (ii) more than a half of the groups had only two members, mostly large companies, and probably would not have been constituted without subsidies; (iii) entities with a broad membership base were established; (iv) competitiveness of Czech agriculture after 2011 has not changed significantly; (v) the majority of subsidies was used to pay salary costs and operating expenses of the organization; (vi) in the case of future support it is necessary to pay great attention to the setting of conditions. Some conclusions can be confirmed on the basis of our own results: (i) the number of entities in the CR was significantly higher

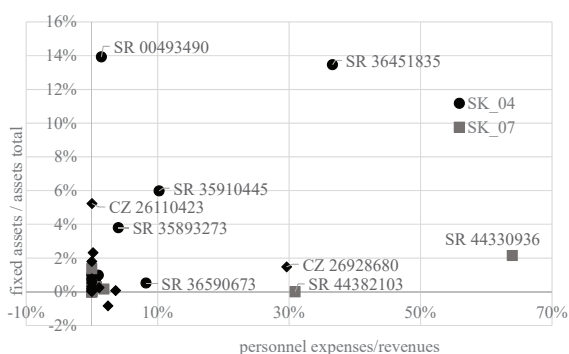


Fig. 4. Characteristics of selected entities, the Czech Republic (CR), the Slovak Republic (SR)

<sup>1</sup> values express country and the company's legal registration number  
<sup>2</sup> figures were calculated based on the last available closing financial statements

Note: CR = Czech Republic, SR = Slovak Republic, 04 = programming period 2004–2006, 07 = programming period 2007–2013

Table 9. Development of share (%) of cooperatives in the agro-food chain of cereals (FR)

	1978	1988	1995	2010
Purchase	68	71	75	74
Malting	20	35	32	40
Milling	7	18	20	40

source: Filippi, 2012

than in the SR; (iv) supported entities do not generate a significant amount of value added in the agricultural sector; (v) with respect to the significance of the cost of services within output consumption and the absence of depreciation it is possible to conclude that the funds were used mainly for operational expenses.

However, as Chloupková, Bjornskov (2002) argued, the emergence of new groups should result from the natural needs of members and financial support from the state should not become the main reason for the emergence of new organizations. The great extent of reliance on public funds also reduces the possibility of independent financial sustainability of the entity (Roest, Cerruti, 2006), and thus may lead to its failure in the future. However, Mills et al. (2010) note that financial support is primarily important in the early stages of development, since the transaction costs are higher at the beginning if we compare them with the activity of an individual. Existing non-financial support is important in the cases when the government wants to use the principles or rules to encourage the emergence of collective action in order to achieve public objectives (Ayer, 1997). But, as outlined above, in many cases there were really situations when the funds were used in a manner that is inconsistent with the idea of a marketing association, i.e. the funds were run out and the producer groups were wound up.

Within the article, some of the financial characteristics of the Western European, Czech and Slovak supported marketing organizations are considered. Comparing the Czech and the Slovak entities with Western entities is not sufficiently relevant with respect to the historical development. In Western Europe, the development of marketing cooperatives has proceeded continuously since their establishment during the turn of the 19<sup>th</sup> and 20<sup>th</sup> centuries (Chloupková, 2002); during this period there was a gradual accumulation of assets. In the countries of Central and Eastern Europe the development was limited by the communist regime and its continuous development was interrupted. The time factor is important in this case; the situation in France can be used as an example (Table 9) (Filippi, 2012), where the vertical integration of processing cooperatives in the agro-food chain of cereals was built over several decades.



Mainly cooperatives that were originally formed as a single-purpose trade organization for the trade in cereals are now profiled as multi-purpose entities which own warehouses, mills, malt houses, shops, offer agricultural inputs, technology, animal feed, finance their own research projects, provide logistics, financial services, professional counselling, help with dealing with nitrates, etc. They are comprehensive partners for farmers, who are both members of the cooperative and the owners. This state can be seen not only in Austria or France, but entities are similarly profiled e.g. in Italy, Belgium, the Netherlands, Denmark or Sweden (Bijman et al., 2012b; Bono, 2012; Gijssels et al., 2012; Nilsson et al., 2012; Pykkonen et al., 2012).

On the other hand, there are single-purpose entities in the European countries, which are highly specialized in the activity they perform. In many cases, these include dairy cooperatives, cooperative redeeming and processing meat products or supplying the market of fruit and vegetables (Bijman et al., 2012a).

In the case of the CR and the SR, it is necessary to realize that not only the supported entities exhibit certain specific characteristics described above, but it may be a general characteristic of marketing entities in the CR and the SR. E.g. some entities in the CR were formed, with few exceptions, without any support, and therefore their business activities were not distorted by subsidies. One of the largest marketing entities for milk in the CR (Mlékařské a hospodářské družstvo JIH), with revenues exceeding 137 million EUR in 2015, has no fixed assets and employs only 2 employees. As Boskova (2013) concluded, Czech dairy cooperatives do not deal with the questions of further vertical integration and joint investments in dairy processing as they lack required experience. At the same time, this author has revealed difficulties in management. Only the minimum of marketing organisations have professional management, the majority of the entities are managed by producers as their part-time job, and this fact limits further development.

From this we can conclude that the trend in Czech collective marketing companies is rather to perform the duties of a partner (as a bargaining co-operative), which negotiates with partners, provides coordinating and consulting activities, instead of aspiring to transform into cooperatives of Western tradition. The Slovak marketing producer groups act similarly. This status can be determined by the specific historical development with little mutual trust, based on some bad experience from transformation of collective farms, which leads to a minimalist form of cooperation.

## CONCLUSION

In the CR and the SR during the reporting period the sum of 44 million EUR was provided to support the

establishment of marketing organizations; 305 producer groups were supported. Many of the supported entities are no longer active marketing groups, 247 entities out of 305 no longer perform activities corresponding to the conditions for the recognition of groups.

As pointed out, the majority of supported groups did not invest the received funds in fixed assets of more permanent character. The funds were rather used to cover used services. Groups usually had no employees. Functions that could have been fulfilled by the assets and employees were replaced by used services. This fact led to reduction in the generated value added, and therefore directly contradicted the fundamental objectives of the provided subsidy programme.

In the CR, 15 entities are still operating, but they do not have a significant impact on the increase of value added of the agricultural sector. Their generated value added ranges from 68 000 to 1.1 million EUR (0.02 to 0.08% of gross value added of the agricultural industry) and is mainly based on sales margins. They are rather service-business organizations (a type of bargaining co-operatives) which are mainly involved in negotiating the conditions and the concentration of supply. Therefore, the comparison to similar organizations of the Western type is irrelevant.

In the SR, a total number of 34 entities are operating, 17 from the first programming period and 17 from the second one. The format of these producer groups, with some exceptions, is similar to situation in the CR. The groups supported in the first programming period have a higher share of the generated value added –altogether they create 1.0–2.3 million EUR (0.34 to 0.47% of gross value added of the agricultural industry). During the second funding period, the supported groups showed a negative value added. After finishing financing, there is a significant increase of sales margins and reduction of expenses on services, which leads to the increase of the value added and at the same time to the decrease of the negative economic result. This can be considered as an indication of market-orientation.

Given the characteristics of supported groups, the number of successfully supported groups, the reported features and the total value of generated value added, it can be concluded that producer groups do not contribute significantly to value added creation. At the same time it can be suggested that most of the entities were established due to the relative ease of fundraising.

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