



PRODUCER ORGANIZATIONS AS A NETWORK STRUCTURE IN AGRIBUSINESS

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ABSTRACT

In a globalized economy, the Bulgarian producer faces simultaneously as serious challenges and competitive pressures on European and world markets, and to the chance to take advantage of new opportunities for their products and services. In this sense, Bulgarian entrepreneurs should focus on the implementation of profitable business strategies that make them competitive in the single European business space. The competitiveness in many more already dependent on the ability of firms to cooperation with potential partners from related industries, the complexity of corporate services, the efficiency of public administration and political solutions that help create a favorable business environment for economic development. There are various networks of cooperation in the agricultural business, an example of such a network are producer organizations.

Key words: producer organizations, vertical integration, transaction cost

INTRODUCTION

Interaction, collaboration, co-operation and integration within the agricultural sector are among the factors influencing the market structure and competitiveness of agriculture. One of the main reasons of the farmer for his participation in the network is to increase the efficiency of production, based on an effort to minimize production and transaction costs. The aim of the article is to specify the reasons and the effects of co-operation and integration.

ESSENCE OF PRODUCER ORGANIZATIONS

One option to overcome many of the problems of farmer is the creation of producer organizations. Purpose of the network structure is to stabilize production and improve the market position of producers. Pooling allows farmers to realize the classic advantages of joint production and supply.

According to some authors (1) farmers' organizations are producer groups, formed a territorial or products in the initiative and voluntary choice of the producers themselves, who have a specific long term goals and irrespective of the legal form, their members work collectively for their achievement. Other authors (2) offer the following definition:

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Producer organizations are formal organizations, membership is voluntary, created for an economic benefit to farmers (of members), providing services to the producers who support their agricultural activities, provide technical assistance, opportunities for processing and marketing services.

Producer organizations exist in many different forms and provide a wide range of services. They range from formal institutions such as cooperatives, to informal producer groups and associations. In literature are different names for the same or similar types of organizations, such as farmer's organization (3), an organization of producers in rural areas (4), an organization of farmers (5) agricultural cooperative (6), a farming association (7), a group of producers (8), and an association of producers (9).

Founders of such an organization can be all natural and legal persons, farmers and cooperatives. Single objective in building organizations of producers is to support the production, the supply of resources and marketing of products. In practice, the creation of producer organizations can provide farmers with better access to finance, logistics, marketing, consulting services, training and others. According to Kanchev and Miteva (10),

the object and purpose of producer organizations of agricultural products are mostly related to production planning, collection and realization of the production, primary processing and quality control, provision of technical means of production and storage, introduction of alien experience, etc. In practice, producer organizations can govern the relations existing with the use of resources and applied technology practices in the sector.

Other authors (11) cited as arguments for the existence of such organizations, first the large number of individual producers who are highly fragmented primary production system. From this position they adapt production to the prices on which it can not influence. Membership in organizations offering representation. Based on value-adding activities, producers can earn a higher margin consumer and to ensure a stable income. Second helping to adapt production to market demand through coordinated management affect market share, price stability and quality control.

The inclusion of a producer organization and economic subjects in the manufacture and marketing of agricultural products creates the prerequisites to use a number of advantages of vertical integration in the chain "land - final products."

Goals that should set itself a producer organization are related mostly to support the concentration of production and ensure its market realization. Furthermore, the producer organization must ensure of their members that their production is planned and adjusted in line with market demand especially in terms of quality and quantity.

Technological development and environmental performance of manufacturers have other priorities of producer organizations. They encourage the implementation of new practices and production technologies, as well as reasonable, environmentally friendly waste management (eg grapes and wine) to protect the soil, water, landscape and biodiversity conservation. Thus the individual farmer is able to overcome problems relating to compliance with marketing standards for quality control and compliance, caused by different qualities.

Effects of the establishment and functioning of producer organizations are: to adapt production to market demand, improved grouping of supply concentration of supply, guarantee producers' incomes, investment in environmental protection and others. They can

be grouped in several directions: economic, regional, administrative, social and environmental.

Organizations of the agricultural producers can use the Structural and Cohesion Funds of EU for the implementation of their activities.

Producer organizations have the right to join in associations that are responsible for implementing common to all operational program and fund.

Priority activities of producer organizations must be to improve the production and marketing. This is especially important for small producers, which are difficult to manage production and market risk in the sector.

Producer organizations which do not comply the recognition criteria, may request a temporary recognition as "producer groups". To be recognized as a producer group annual turnover of the organization should not be less than the equivalent of € 50,000 and have at least 4 members.

EFFECTS OF VERTICAL INTEGRATION

Coordination and integration between manufacturers is inevitable. The indications of this trend rooted in a change in the market structure and technological progress. Vertical integration is a form of business organization, which showed a desire to participate in all stages of the manufacturing process of a product which gives businesses better control adds value, reduces total costs and allows them to be implemented more high profits in stages. Key elements of coordination are (a) collecting and processing information, (b) making decisions.

Thus, vertical coordination requires the exchange of information between participants in the upper and lower levels of the chain, as well as some form of decision-making, leading to a leveling of different activities and investments. The costs of exchanging information and making decisions are called coordination costs, which together with transactional risks up transaction costs (12). Transaction costs theory is the theoretical basis of the importance of vertical coordination of producer organizations in the food chain (13).

The main mechanism of the theory is that the specific features of the transaction determine their effect on transaction costs and the choice of an appropriate governance structure. The most important attributes that determine the level of vertical coordination are behavioral uncertainty (opportunism) and bounded

rationality (14), as well as "critical dimensions" of themselves transactions: frequency, uncertainty and assets specificity (15). Since uncertainty is always present, the most important factor that determines the level of costs and the contribution of integration is specificity of assets. With increasing specificity, transaction costs increase, which affects the growth of the benefits of integration. The specificity of assets is defined as the fundamental basis for the organization of non-market transactions in various forms. According to some authors (15) this is because "the value of the assets of specific capital is much higher for alternative use. The degree of specificity of assets, as measured by the cost of shifting of the input investment for a particular transaction can be considered as an alternative cost of the transaction. ". The specificity of assets is positively related to the effects of vertical integration.

Vertical integration in the agricultural sector is one of the decisive factors influencing the market and the competitiveness of businesses. It raises the question whether companies should try to internalize the transaction and perform reconciliation of the market in order to increase the company's competitiveness both in the domestic and foreign market. The motives for vertical integration can be divided into two groups. The first is related to the effort to increase production efficiency, and second, by creating market power.

The main reasons for the integration efforts of companies to minimize costs and to increase productivity (16). An important motive for vertical integration is to minimize transaction costs.

Benefits for individual economic agents involved in the vertical network, are associated

with reducing production and transaction costs; reduction of market risk; exchange of technical knowledge; optimal use of scarce resources; improve market position; overcoming information asymmetry and others.

The producer organizations are an appropriate governance structure for combining horizontal coordination between producers with vertical coordination between all participants in the network.

PROBLEMS OF CREATION AND FUNCTIONING OF PRODUCER ORGANIZATIONS IN BULGARIA

The creation of producer organizations in agriculture and their development is one of the priorities of the Ministry of Agriculture and Forestry, assisted by the measure "Setting up of producer organizations," part of the Rural Development Programme (RDP). The measure aims to encourage the creation of producer organizations in the agricultural sector to increase the production and supply of high quality products that meet European standards and market requirements and to facilitate market access for small and medium-sized farms.

Efforts to increase the degree of association of farmers do not work and the number of created in the country producer organizations is very small, and their market share is negligible. Analysis of the implementation of RDP 2007-2013 under Measure 142 "Setting up of producer organizations" for the entire period shows that have been approved to support four producer organizations, contracts with a total value of public spending 884 thousand. Lev. In 2013, payments were made at the rate of 28,409 lev in 2010 filed an application for payment (Table 1).

Table 1. *Approved, rejected, approved applications and applications for payment under measure 142 to 31.12.2013*

Year	Number of accepted applications	Number of rejected applications	Number of approved applications	Number of paid applications	Total public expenditure (000 €)
2008	1	0	0	0	0
2009	0	0	0	0	0
2010	2	0	1	0	0
2011	0	1	0	1	15
2012	2	0	0	0	0
2013	0	0	3	0	0
Total	5	1	4	1	15

Source: Annual Report on the implementation of the Programme for Rural Development (2007-2013.) In the Republic of Bulgaria in the period 01.01.2012 years - 31.12. 2012 Agricultural and reports 2009-2014g. department "Agrostatistics" MAF

Due to the low interest of farmers in 2011 changes were made to the requirements of Measure 142 did not achieve the expected result.

The analysis of progress in achieving the targets based on paid applications, performance shows 0.7% of the set target for the measure supported producer organizations and 2% of turnover of supported producer organizations (18).

The reasons for the low interest in the measure due to the difficult process of cooperation of small farms, lack of trust, lack of management skills of the marketing organization of their country (an accounting management company /cooperative, etc.) minimum required expenditure for the functioning of producer organizations, which hinders the process of organizing and applying. Delayed treatment of single applications also discourages potential applicants. Lack of approved and supported organizations that serve as good examples of the potential candidates have a strong negative impact on the interest of the measure. It is therefore necessary to create a legal basis to facilitate their cooperation by increasing their opportunities to occupy a strong market position in relation to buyers; better opportunities for produced better prices, planning and reduce costs of production, concentration of supply, a fairer distribution of value-added supply chain of food.

Difficulties and problems related to the implementation of the legal framework are mainly related to requirements for registration and recognition of producer organizations, such as the number of members, the minimum size of the area and the maximum share of votes in the company (20%) and others. Especially significant are the minimum size of production (100 thousand EUR) and batch sizes from common products of equal quality. Together with the large number of documents for the recognition of the producer organization, reducing the attractiveness of participation of farmers.

In order to promote the association of farmers, it is important to set terms and conditions for recognition of producer organizations, associations of producer organizations and interbranch organizations in all sectors of agriculture, and the ability of producer organizations to be created to achieve a variety of purposes. It is necessary to establish rules setting terms and conditions for recognition and supervision of organizations of agricultural products, associations of producer organizations and interbranch organizations, as well as requirements for the terms and

conditions for recognition and control of groups and organizations producers who are beneficiaries of the measure 9 "Establishment of groups and producer organizations" for Rural Development Programme 2014-2020 The implementation of such measures would:

- significantly increase the number of recognized producer organizations;
- established organizations and producer groups to benefit from the economic advantages of association and increase its competitiveness on both domestic and external markets, as well as possibilities for support under the RDP 2014 - 2020 r .;
- increasing the role of organizations and groups of producers in the supply chain of food, including through a joint sale of products manufactured by their members and increase the proportion of the added value that remains for farmers.

GOOD PRACTICES ORGANIZATION OF DAIRY FARMERS "FARM MILK"

The beginning of the organization of dairy farmers "Farm Milk" was launched in 2012 by 7 family farms cow's milk of the municipality of Rakovski. The average daily milk production is between 5 and 6 tons and annual between 1800 and 2000 tons. Later the organization joins another dairy farmer. The organization has signed a contract for financing under Measure 142 "Setting up of producer organizations" and executed project to the "Bioselena" by a member of the organization, to build a system for heating hot water for the needs of the dairy farm. Regardless of participation of the association members actively modernize their farms and take part in various associations and unions as "Thrace Milk", "National Union of Cattle in Bulgaria", "National Association of small family farms and processors" and others.

PRODUCER ORGANIZATION "DOBRUDZHA ECO MILK"

The organization was founded in 2005 with 18 members, the guiding principle was equity, according to the scale of a given manufacturer. Seven manufacturers fall. Since 2010 the number of members is 8 and introduces a fair formula, according to which all participants have equal shares, equal rights and equal obligations. Typical of holdings of individual members is that they are mixed - dealing with livestock and crop production. The total number of cows in the organization is about 1120 at 600 at the beginning in 2005. The total leased land is 11,000 hectares. All members are first class holdings - dairy farming. Total

capacity, which form all organization members between 12 and 15 tonnes of milk per day.

The main objective of the establishment of the organization's competitiveness and sustainability of the market. To achieve this objective, the main means and methods are directed to jointly placing goods on the market -Milk / grains and oilseeds, while achieving higher productivity and negotiate prices and conditions for supply of raw materials (fertilizers, seeds, pesticides and etc.) to establish common rules on production information (yield, quality, availability), and common rules for the collection of information for suppliers, buyers, banks, insurers. On this basis, farmers adapt to market requirements for production and output. The organization also helps to establish an information base for new technologies, transfer of foreign experience, know-how and other. All this contributes to building and development of management skills of business and commercial activity.

CONCLUSION

Producer organizations are a way to gain advantage and control as well as long-term agreements. This process is linked to the development of the product chain in agriculture.

Vertically integrated business can survive in low return at some stage of the product chain, as long as they obtain the necessary funds for the realization of the production of the next stages. The creation of farmer organizations suggests improving the economic status, long-term market position, efficient organization of production, marketing and product realization.

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