Social economy and third sector organisations in Ukraine: overcoming the barriers to the development of service co-operatives in agrifood sector

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The decision to conduct this research project in a team was made after careful examination and assessment of the scope of the project and the workload of the researchers. Yevhen Baranchenko is a full-time lecturer at the Department of Management of Sumy State University. Yuliana Taranenko is a doctoral student at the Department of Management and holds the position of assistant. The research funding, for which the researchers apply will cover only the costs associated with the research project (travel expenses mainly).

Literature review

Co-operatives have long been regarded as representatives of a specific type of organisation, main aim of which is to serve the need of members rather than generate profit for the investors. The concept of social economy is embedded in these organisations (Borzaga and Defourny, 2001; Spear, 2001; Pestoff; 2004; Defourny and Pestoff, 2008), which are democratically controlled and are open for those who consider joining. Being true representatives of the third sector, these organisations are positioned in between three poles namely state, market and households (Pestoff, 1992; Evers and Laville, 2004).

Often the researchers allocate co-operatives to social capital-based organisations (Nilsson, 1998; Kyriakopoulos, Meulenberg and Nilsson, 2004; Valentinov, 2004; Stryjan, 2006; Simmons and Birchall, 2008). Indeed co-operatives are infused with social elements, which can be borrowed from sociology and social psychology.

The governing mechanisms of co-operatives influenced by the respective degrees of asymmetry of the member interdependencies to a large extent are determined by the distinctive economic principles of interaction (Valentinov, 2004). Thus in contrast to markets and hierarchies, internal coordination and allocation of the resources respectively are
primarily determined by the quality of interpersonal relations between the members of the co-operative. Business activity depends on the degree of mutual understanding, trust, and personal sympathy, which exist between the members.

Therefore the observer may denote the similarity between social capital and the social side of these organisations. The social side of co-operatives comes from the motivation for establishing a cooperative group, which relates to various constraints the prospective member may face: feeling of isolation; the fear to be exploited by other social forces; various life circumstances; the search for social importance; love for other people and readiness to help; the sense of belonging to a certain neighbourhood; the willingness to follow habits etc. Additionally for many stakeholders and by a range of scholars the aspect of irrationality is also be admitted in the willingness to consider ethical values, which to the contrary is not that important for investor owned firm (IOF).

On the other side the concept of social capital provides underpinning for the co-operative organisation as rational and efficient form (Evers and Laville, 2004). Thus social capital similarly to financial, physical, or human capital can be considered as a productive resource and which requires investments and generates returns in the form of better access to information, efficient system of communication and coordination and reduction of opportunistic behaviour.

Forming a significant part of the third sector, co-operatives are considered as a worldwide phenomenon (Borzaga and Defourny, 2001; Spear, 2001; Defourny and Pestoff, 2008). These organisations (if in the business world), mutually owned by separate sellers or buyers, offer an alternative business relationship that differentiates them significantly from investor owned firms. A co-operative has its members as the main players for whom the business is created. This reflects in goal setting, decision-making, and has impact upon the capital structure.

Occupying the leading positions in many European countries, co-operatives in Spain and Italy, for instance, gained success in retail sector, service and welfare, whereas the
remarkable prosperity of the third sector, which sustains economic development is witnessed in Sweden and other Scandinavian countries (Stryjan, 2006; Olsson et al., 2009; Pestoff, 2009). Co-operatives are more developed in agrifood, credit and financial services, wholesale and retail sectors. In agrifood industry significant percentage of world agricultural produce is supplied through cooperatives. In some European countries the major part of various industries, not exclusively limited to the agricultural sector, is almost entirely controlled by co-operatives. For instance, the farmers are highly co-operative in the dairy processing industry in the Netherlands, Denmark, Sweden, Ireland, Finland and Portugal, where a significant number of market share belongs to co-operatives (Van Bekkum and Van Dijk, 1997).

An agricultural cooperative is not only a horizontal arrangement between a range of independent farmer entrepreneurs, but also a vertical relationship of a society of members, which exercise ownership and control over up- and downstream operational activities (Hendrikse, 2011).

Thus owners of a cooperative are usually referred to as members. A distinctive feature of a co-operative is that members commit only certain issues to group decisions. At the same time, members are independent in the sense that they do not necessarily collaborate with each other on diverse aspects of their individual businesses. Members of a cooperative have two roles. First, they have a transaction relationship with the organisation by providing inputs, buying outputs or ordering other services from a co-operative; whereas the second role relates to collective possession of the residual rights over the cooperative and the decision making process (Cook and Chaddad, 2004). Primarily a cooperative serves member interests and contributes by generating maximum value for the members at the joint enterprise. Operational and philosophical guidelines for the organisations are embedded in the co-operative principles, seven of which are recognised by International Co-operative Alliance (ICA, 2012). National laws that govern co-operatives are guided by these principles, but the principles themselves are not the law.
Agricultural co-operatives have been studied from different perspectives, including assessment of economic benefits, social and environmental advantages (Glasbergen, 2000; Renting and Van der Ploeg, 2001, Soboh et al. 2009; Baranchenko and Oglethorpe, 2012). The researchers examined extensively various aspects of these organisations including the analysis of co-operative formations/structures, advantages over IOFs, constraints for co-operatives and reasons for joining these organisations. Moreover among the theories that were used are: institutional theory, neo-classical economic theory, game theory, transaction cost theory, property rights theory and agency theory.

Although the benefits identified by the researchers, which farmers can gain through joining co-operatives are numerous – such as reduced costs (often significant in the case of service and marketing), shared experience and knowledge, and the ability to make more efficient investments with further rational utilisation of assets – the farmers in Ukraine who are regarded as potential co-operators still show a 'lack of conviction' to participate in the collaborative entity (Valentinov, 2005). This mainly can be explained by the fact that in Soviet Ukraine there was huge governmental interference in cooperative affairs at all levels. Thus for instance member registration was compulsory, and the directors and staff were not elected by the members, but directly appointed by the state. As a consequence for many people from the rural communities the concept of cooperation in agricultural sector appears to have been lost (if it ever had) the positive connotations it had in the ‘naturally occurring’ cooperative movement throughout Europe and Northern America. For many farmers in Ukraine the use of the word ‘co-operative’ still not only creates the wrong impression, but is associated with the barriers to progress (Gardner and Lerman, 2006). Unlike the countries in Europe and Northern America where there was and still is a more ‘favourable climate’ for co-operative activity, in Ukraine the observer may notice a rapid decline in number of agricultural service co-operatives (State Statistics Service, 2011). As the study focuses on Ukrainian agrifood industry, it is necessary to define the activities, which are determined by the law governing the operations of the agricultural service co-operatives in Ukraine (Legislative document VRU, 2012).
Thus the services include:

- storage and marketing of agricultural produce;
- primary processing;
- supply of fertilizer, seeds, chemicals;
- logistics;
- machinery supply (through machinery rings);
- consultancy;
- provision of other services (IT, building and construction works).

Therefore the benefits, which are provided by these co-operatives are mainly concerned with providing services to farmer members. However, by doing so, the co-operatives benefit local community through, for instance the provision of IT services or consultancy, and/or indirect influence on the local employment and infrastructure.

Despite the significant organisational and financial support declared by the Ukrainian government at both national and local levels aimed to develop service co-operatives, their number in 2011 decreased to 645 (State Statistics Service, 2011). The decline in the quantity of co-operatives (not as a result of amalgamations) can be observed in the majority or regions, but it is worthy of note that there are two regions (Zhitomirska and Vinnitska oblasts) where the number of service co-operatives increased. Thus this phenomenon requires greater exploration.

**Research question and methodology**

The phenomenological approach, which is widely used by the scholars in social science domain, forms the basis for this research enquiry. The objective is to obtain knowledge of the phenomenon, generate the meaning by interpreting it and bring out the structure (Morse, 1994; Heidegger, 2005).
The central research question posed by the researchers in this study is: How the managers of the agricultural service co-operatives overcome the barriers, face challenges and effectively exploit the opportunities for collaborative actions in Ukraine?

The research question posed by this study is of exploratory nature and therefore requires an appropriate philosophical and methodological approach to be employed. An interpretivist epistemological stance forms the foundation to this research, where according to Bryman (2008) the emphasis is placed on the understanding of the reality through the process of participants’ interpretations. Following Yin (2008), a multiple case study approach is proposed to adopt enabling the researchers to undertake semi-structured interviews with the management teams of agricultural service co-operatives in order to substantiate the ways the co-operatives overcome the barriers. It is proposed to get access to organisations operating in five oblasts (regions): Zhitomirska, Vinnitska, Sumska, Lugansaka and Mykolayivska. This choice is determined by the need to include the regions, in which co-operatives are developing (first two) as well as those, in which the decline is witnessed (three remaining).

According to the developed research strategy it is suggested to purposely sample five co-operatives per oblast, bringing the total number of studied organisations up to 25. Furthermore the issues of trustworthiness and robustness of the outcomes from the study can be met by applying triangulation research strategy (Stake, 1995; Tashakkori and Teddlie, 2003; Creswell, 2008). After the data collection from co-operatives is finished, the preliminary outcomes will be triangulated by interviewing relevant policy makers at national and local levels. Thus this methodological approach will enable the researchers to discover data from the participants within the ‘real-life context’ (Yin, 2008) and that is unavailable elsewhere.

Moreover the researchers would like emphasise that the exploration of the reality through phenomenological stance may enable to reclaim that part of theory, which underpins the
development of the co-operatives in Ukraine and which has been or potentially can be neglected by positivist approach.

**Contribution of the research**

This research will contribute to the domain of social economy, third sector and co-operative studies in particular, providing an insight on important issues regarding the development of agricultural service co-operatives in Ukraine. A better understanding of the phenomenon will be beneficial for cooperative enterprises in the regions, their members, and management as well as for the rural community across the country. Furthermore the findings containing the evidence of successful mutual activity can be used by other third sector organisations, which are scarce in Ukraine at the moment.

As the study will include interviews with the representatives of the governing bodies at regional level, the outcomes of the research can be of use for the policy making purpose regarding operational guidelines as well as for providing a wide range of support to agricultural service co-operatives. This lies within the EU Eastern Partnership Flagship Initiatives (EU publication, 2010), one of which is currently running in support of small and medium size enterprises in Ukraine and is aimed to disseminate European practices and encourage integration of Ukraine into EU.

**Work plan and schedule**

A Detailed work plan and schedule are provided in the separate document and attached to the application.
References


