

## THE AGRICULTURAL COOPERATIVES IN ROMANIA: FROM CONCEPTUAL FRAMEWORK TO PROFITABLE LOCAL PRODUCTION

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**Abstract:** *More than 20 years ago, the agricultural cooperatives represented an economic engine of local development in Romania. Variations in demography and legislation can be considered factors in the change of direction within the agricultural sector (young people moving from rural to urban areas; the existence of two specific legal regulations for agricultural cooperatives). In 2013, the Romanian Institute of Social Economy (IES) announced that in 2010 there were approximately 150 agricultural cooperatives in Romania. Still, IES is very optimistic about the great potential of agricultural cooperatives for economic development at local level. They argue that due the current implementation of EU legislation, Romania has to take advantage of important financial support in agricultural sector. Thus, the current percentage of 37% of population working in agriculture is expected to increase and to spur the rebirth of the “old-fashioned” agricultural cooperatives. Through the spectrum of the current research, the authors address the problem of insufficiency in the exploitation of the local products in the agricultural sector. The paper aims at describing the conceptual framework of agricultural cooperatives in Romania and at identifying ways to profit from the local production within this framework. The paper will be structured in two main parts: the first part is dedicated to the analysis of the specific Romanian legislation and literature and the*

second part is dedicated to the analysis of some local experiences of agricultural cooperatives in Romania. The research methodology consists of observation method (documents analysis), method of data collection and interpretation (comparison and questionnaire). There are three research questions to be answered: 1) how is the agricultural cooperative defined within the national legislation? , 2) which are the ways to profit from the local production? and 3) can a marketing strategy contribute to a better exploitation of local products in the agriculture sector?

**Keywords:** cooperatives, agriculture, marketing, Romania

## COOPERATIVES WITHIN THE SPECTRUM OF LITERATURE

The trend in Europe in cooperatives domain has its origins in the Italian law on social cooperative (cooperative sociale). The Italian law no.381/1991 defines this type of organization by its mission of “following the general interests of community by promoting social and humanity integration through a) health and educational services management (social cooperative A type) and b) accomplish agricultural, industrial, commercial or services activities with the aim of work integration of disadvantaged people (social cooperative B type)” (art.1 (1)).

The British literature mentions the fact that “cooperatives” are a “species” of social enterprises.

Martin Price (2009:16) considers that cooperatives represent a philosophical structure of social enterprise. The author refers to a philosophical structure in terms of *how the organization sees itself*.

*How a cooperative can consider itself a social enterprise?*

By analyzing the definition of social enterprise – “is a businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being rived by the need to maximize profit for shareholders and owners” (UK Department of Trade and Industry, 2002) - Martin Price (2009:1-3) highlights the key concepts:

- Business – they trade, they buy and sell products or services
- Use of surplus for a social benefit – the surplus is reinvested for the continuity of the organization, to achieve a social aim, such as employing people who are not attractive to other employers, developing business ideas that are not attractive to other businesses areas, developing specific under-developed local communities.

By analyzing the definition of cooperatives – “defined as an autonomous association of person united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly –owned and democratically controlled enterprise” (UK Cooperative Movement, 1995 in Price, 2009:21) - Martin Price highlights the values of: Self-help, Self-responsibility, Democracy, Equality, Equity, Solidarity and principles of Voluntary and open membership, Democratic member control, Member economic participation, Autonomy and independence, Education, training and information, Cooperation among cooperatives, Concern for community.

Through the spectrum of these values and principles, the authors of this paper consider that cooperative is the most active, autonomous, independent and democratic type of social enterprise. The target group of this type of organization is represented by

the members themselves, they get involved closely to trade, buy and sell products and services and to use the surpluses for their own and community social benefit.

This is the argument for the authors to undergo the following analysis within the current paper - *how can the local production be profitable within the framework of agricultural cooperatives?* Even they are considered to be an economic engine of Romanian local development, there is still a lot to exploit.

The challenges to identify some answers to this question rely on the changes within the insufficiency in the exploitation of the local products in the Romanian agricultural sector.

The paper will focus on the national specific legislation and on two case studies of successful agricultural cooperatives.

## NATIONAL SPECIFIC LEGISLATION ON AGRICULTURAL COOPERATIVES

Currently, there are two legal regulation on agricultural cooperatives: Law 1/2005 on cooperation (cooperative societies) and Law 566/2004 on agricultural cooperation (agricultural cooperative societies).

“Cooperation” refers to a specific economy sector functional through cooperative societies and any other association modalities at territorial and national level (Law 1/2005, art. 2).

Thus, a cooperative society is an autonomous association of natural/legal persons, with the aim of promoting economic, social and cultural interests of its members, and being democratically governed by its members (Law 1/2005, art. 7(1)).

The cooperative societies can be handicrafts, consumers, agricultural, housing, fisheries, transports, forests cooperatives.

The *agricultural cooperative societies* are defined as the association of natural persons for the aim of exploiting in common the agricultural area of shareholders, to improve together the common land, to together the equipment and value the agricultural products (Law 1/2005, art. 4(d)).

But the “real” definition of agricultural cooperative is provided by the Law 566/2004 on agricultural cooperation. This law presents the exact term of agricultural cooperative (not cooperation or society).

In the eyes of this specific law, the *agricultural cooperative* is defined as the autonomous association of natural and legal persons, if the case a private legal person, created on the free agreement for the aim of promoting the cooperative’s members’ interests, according to cooperation principles, within the framework of this specific law (Law 566/2004, art.2).

**Table 1 Comparing the definitions**

	Modality of organization	Members	Aim	Target
Law 1/2005 agricultural cooperative	Association	Natural/legal persons	Exploiting the agricultural area/products	Agricultural area/products

society				
Law 566/2004 agricultural cooperative	Association	Natural/legal persons	Promoting members' interests	Members

Source: the authors based on the national legislation

*Which law is more explicit in providing a real meaning of agricultural cooperative?*

Regarding the modality of organization and the type of members, both laws make references on the same association of natural or legal persons. The Law 566/2004 specifies the fact that the association is accomplished on the *autonomy principle* (autonomy and independency principles mentioned by Cooperative Movement, 1995).

Regarding the aim of creating this type of association of natural/legal persons, the laws do not refer to the same target of their activity – Law 1/2005 aims at exploiting the agricultural area/products, while the Law 566/2004 aims at promoting the members' interest. A critique of the Law 566/2004 is that it does not make clear the meaning of members' interest. One can deduce that it may refer to obtaining profit/benefits from the economic, technical or social activities through the exploitation of agricultural area/products.

The use of syntagma “members' interests/needs” (some cases “mutual interest”) is specific to the cooperative meaning. It is identified in the majority of national legislation, such as in Poland, Czech Republic, Romania, Bulgaria, Croatia or Ukraine. All definitions have in common the economic/business activity in accomplishing interests of their members (Matei & Sandu, 2011).

For both definitions there can be identified arguments for the aim of agricultural activity. The real meaning of an agricultural organization is to exploit the agricultural area and the real meaning of a cooperative is to accomplish the members' interests.

For these reasons, the authors consider that a complete and representative definition of agricultural cooperative through legislation should comprise the real meaning of both agricultural organization and cooperative: *an autonomous association of natural/ legal persons created on the free agreement for the aim of promoting the cooperative's members' interests, through the exploitation in common of the agricultural area of shareholders. In this manner, the exploitation of agricultural area and products can represent the way to accomplish the members' interests.*

Thus, the authors underline in this section two important components of the agricultural cooperative: members' interests and exploitation of agricultural area and products.

Firstly, members' interests are described within the Law1/2005 as the economic, social and cultural interests (art. 7(1)) (both laws use the expression “cooperator member”).

In accordance with the principles formulated by Cooperative Movement, UK, 1995, the interests shall be achieved by respecting the principles of voluntary and opened association, democratic control, economic participation, autonomy and independency, education, training and information, cooperation among cooperatives, concern for community (Law 1/2005, art.7 (3) and Law 566/2004, art.8).

Secondly, the exploitation of agricultural area and products is described only in the sense of the agricultural cooperatives categories (Law 566/2004, art.6):

- agricultural cooperative for services,
- agricultural cooperatives for acquisitions (materials and equipment for agricultural production) and sells (of agricultural products),
- agricultural cooperatives for processing the agricultural products (typical products, brands),
- handicrafts agricultural cooperatives,
- agricultural cooperatives for the exploitation and management of agricultural, forests, fisheries and livestock areas,
- agricultural cooperatives for financing, mutual aid and agricultural insurance.

The conceptual framework of agricultural cooperatives within the national legislation reveals the fact that there can be some unclear aspects of what an agricultural cooperative is.

The provisions of one law are not enough to explain itself the meaning of agricultural cooperative. Both laws have to work together to provide the clear explanation of the definition and the key-aspects in creating and making functional an agricultural cooperative.

If that was the case of the conceptual framework, there is a need to understand how an agricultural cooperative really works in practice. Thus, the next section will provide an analysis of two agricultural cooperatives in Romania.

## **MAKING A PROFITABLE LOCAL PRODUCTION: DOES IT WORK?**

This section aims at illustrating whether the local production through agricultural cooperatives can be profitable or not.

The case studies are represented by Bio Hrana Prietenia (ENG Bio Food Friendship) and Vlasca 2008. By analyzing the general profile of the cooperatives (Table 2), the financial data (Table 3) and according to the agricultural cooperatives' definition, the authors characterize these organizations as follow:

### **a) Definition**

*Bio Hrana Prietenia* is an autonomous association of natural persons (represented by mentally disabled people) with the aim of promoting the social interests (social integration and therapy) of its members, through the exploitation in common of the agricultural area. It was established as a limited liability company, but it applies the rules of an agricultural cooperative. Due the fact it reinvests its surpluses in order to achieve a social mission and 2/3 employees are disabled people, it can be considered a social enterprise.

*Vlasca 2008* is an autonomous association of legal persons created on the free agreement for the aim of promoting the cooperative's members' economic interests, through the exploitation in common of the agricultural area of shareholders.

**Table 2 General description (the authors based on data collection)**

Item	Bio Hrana Prietenia	Vlasca 2008
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Year of establishment	2011	2008
Legal status	Agricultural cooperative – social enterprise	Agricultural cooperative (societies)
No. employees	3 (2 disabled people)	1
No. members	33	50
Agricultural area	2,5 hectares	30.000 hectares
Products	Fruits and vegetables	Cereals
Approach within the market	Social economy sector	Private sector
Type of activity	Production of bread, sweets and pastries	Facilitation of agricultural raw materials sales, livestock, textiles and semi-products
Mission	Social sustainability, social integration of disabled people	Profit maximization for members

**Table 3 Financial data (the authors based on data collection)**

Item (currency euro) (exchange rate lei/euro medium value/year)	Bio Hrana Prietenia			Vlasca 2008		
	2011	2012	2013	2008	2012	2013
Turnover	0	3.210,95	2.009,05	0	51.252,69	19.914,00
Net profit	0	0	0	0	28.939,40	262,50
Net loss	321,62	2.712,52	2.038,92	0	0	0
Total debts	377,54	3.337,74	5.210,22	2.715,39	1.349,64	1.958,36
Total expenses	321,62	5.496,40	4.264,53	0	25.918,31	36.449,19
Total incomes	0	2.783,88	2.294,41	0	60.369,83	37.878,25
Stocks	0	36,80	105,90	9,77	0	105,00
Bank accounts	25,72	225,98	38,69	6.884,89	50.024,91	72.344,87

b) A marketing approach

*Bio Hrana Prietenia* has a small scale production covering an area of 2, 5 hectares. The core products are represented by the material goods type vegetables and fruits, the actual products by bakery products and the augmented products by therapy services.

In the product-life cycle, the products can be identified in the stage of introduction within the market (slow sales growth, no profit). The differential characteristics of the products within the market are the products attributes and branding. The organization pricing – strategy objective is represented by the cost recovery and social equity.

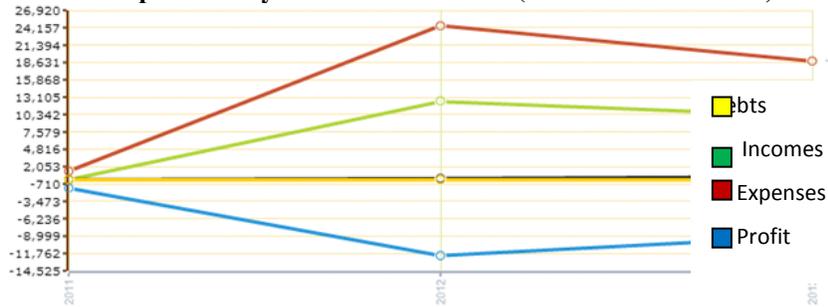
*Vlasca 2008* has a large scale production covering an area of 30.000 hectares. The core products are represented by the material goods type cereals (for the moment there is not the case of actual product or augmented product).

In the product-life cycle, the products can be identified in the stage of maturity (close to decline). This is the reason why the cooperatives Board is planning to develop actual and augmented products - bakery products. The differential characteristics of the products within the market are the products and services attributes and branding. The organization pricing – strategy is represented by the surplus and market size maximization.

c) Making a profitable production

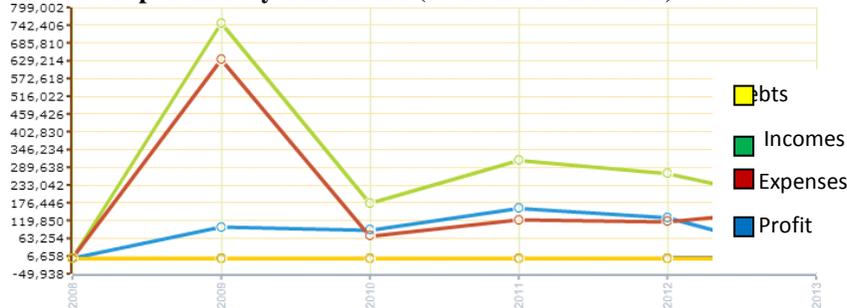
Whether the two cooperatives had a profitable production in their evolution, it is illustrated in Figures 1 and 2.

**Figure 1 The evolution of profitability Bio Hrana Prietenia (timeframe 2011-2013)**



Source: Firme.info, <http://www.firme.info/bio-hrana-prietenia-srl-cui28391766/>

**Figure 2 The evolution of profitability Vlasca2008 (timeframe 2008-2013)**



Source: Firme.info, <http://www.firme.info/vlasca-2008-cooperativa-agricola-cui24896626/>

*Bio Hrana Prietenia* is in the phase of costs recovery due the fact it has a small scale production. But it manages to have a balance between incomes and expenses. The profits are continuously increasing, but still not with a large amount, that would allow making a profitable production.

On the contrary, *Vlasca 2008* has achieved its maximum growth within the period 2008-2009 (since its establishment), entered in decline within the period 2009-2010 (the beginnings of the crisis period). The economic recovery started within the period 2010-2011. Currently, the cooperative is in decline stage and they are planning to re-think the strategy of economic growth. Thus, a profitable production within *Vlasca 2008* is not stable. Every year it reaches both growth and decline stages.

## FINAL REMARKS

The national legislation on agricultural cooperatives described the fact that there are confusing aspects regarding the aim of establishing an agricultural cooperative: exploiting the agricultural area/products vs. promoting members' interests.

The authors attempted to clarify some aspects of defining the agricultural cooperative definition, by comprising the real meaning of both agricultural organization

and cooperative. The proposed definition (as one of the research results), goes in the line of literature important values of an agricultural cooperative. The authors attempted as well to identify pragmatic aspects of the conceptual and legal frameworks within the agricultural sector in Romania.

The two selected case studies illustrate different ways in making a profitable local production (as one of the research results):

- Aim: social profit vs. pecuniary profit
- Market approach: social economy vs. private sector
- Production scale: small scale vs. large scale
- Target group: disabled people vs. members
- Stage of product within the market: augmented vs. core products
- Product- life cycle: introduction vs. decline
- Pricing strategy: cost recovery and social equity vs. surplus and market size maximization

All these differential aspects are visible in the stability vs. instability in making a profitable local production. The authors consider that adopting different marketing strategy can affect the exploitation of local products in the agricultural sector and in making a profitable production.

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