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PECULIARITIES OF MANAGING COOPERATIVES AND THEIR DEVELOPMENTAL PROSPECTS IN GEORGIA (ON THE EXAMPLE OF AGRICULTURAL COOPERATIVES)

Abstract: *The article considers the role of the agricultural cooperatives in the development of agriculture and economics. In the modern world, cooperatives are very important for agricultural production and make it possible for every country of the world not only to meet its own demands for the agricultural produce, but also to export the products to other countries. The theoretical study is based on the works of world famous authors, including the authors from Georgia and legal normative documents, while the practical study is based on the qualitative study of the agricultural cooperatives of Georgia. The study used questionnaires and interviews, statistical data and graphical, grouping and comparison methods. The study evaluated the peculiarities in the management of agricultural cooperatives and their level of development in Georgia and developed recommendations to help improve the management efficiency and developmental level of the agricultural cooperatives.*

Key words: Cooperative, Management, Agricultural, Technology, Organizational design, Strategy.

Language: English

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Introduction

In many countries of the world, establishment and development of cooperatives in agriculture is considered one of the important successful trends, which lead to the development of individual farms and improvement of the well-being of cooperative members on the one hand and to the improvement and development of the branch on the other hand.

The special nature of the cooperatives is that they are voluntary and independent associations, with their members, while participating in the capital-formation process, are engaged in labor, are profit-oriented, use democratic management (one member – one vote) and try to meet the common social-economic and cultural demands and needs of the cooperative members.

A cooperative, by combining the joint efforts, allows its members to: reduce the costs of production [6, p. 386]; develop and implement the strategy supporting their economic consolidation, establish themselves on the market and achieve competitive advantage [4, p. 63]; organize the business with their own efforts, by means of engagement of each member and distribution of authority [3, p. 91];

ensure the accumulation of finances and improvement of financial opportunities [1, p. 35]; develop the ways of company development and change [8, p. 133]; raise the motivation of the company members [9, p. 160]; adequately respond to the technological novelties, introduce up-to-date IT systems [5, p. 6518. 7, p. 189]; implement the latest information systems that will help them to position the market and to simplify financial accounting [13, p. 191] etc.

Following the above-mentioned, in recent years, establishment of cooperatives in Georgia, in the field of agriculture in particular, has become a topical issue. The existing situation in the field of agriculture and challenges of agricultural production in the global environment has made the establishment and development of cooperatives one of the priorities [10, p. 132].

It should be noted that the number of cooperatives functioning in Georgia before 2012 was small and the active steps of the state have increased their numbers, but the development of agricultural



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cooperatives, their establishment on the market and prolongation of their life are associated with many difficulties. Consequently, the evaluation of the role and present conditions of the agricultural cooperatives in Georgia and preparing relevant recommendations for their development were set as the goal of the present study.

Based on the set goal, the following objectives were identified:

- Analyzing the historical evolution of the development of agricultural cooperatives.
- Evaluating the management peculiarities of agricultural cooperatives.
- Developing recommendations to develop the agricultural cooperatives.

Agricultural cooperatives of Georgia were selected as the study object. The process of the study relied on the qualitative and quantitative studies. The study used questionnaires, interview and information sources of the companies, statistical information, as well as graphical, grouping and comparison methods.

The study results are important for agricultural cooperatives and all concerned parties, while the recommendations will help the cooperatives and relevant bodies to solve the managerial and efficiency problems with the cooperatives and improve the level of the cooperatives development.

Historical viewpoint of the cooperatives establishment and trends of their development in Georgia

The formation and development of cooperatives in the world started almost two hundred years ago as a result of the fundamental changes in agriculture following the Industrial Revolution in Europe.

Before the Industrial Revolution, the production process in the branch of agriculture mostly relied on the principle of *natural economy*, i.e. when people meet their demands for different products with the products manufactured at their own family farms, i.e. with their own efforts, and sold or exchanged the excess products for the products they needed.

The Industrial Revolution, development of the means of production and technological innovations have led to the changes in rural and urban areas and laid the foundations for market economy. Establishment of manufactories in the towns and cities promoted the peasants' flow to the urban areas as workers, who, on their turn, due to the economic pressure exerted on them by the rural owners of the new technologies, were forced to leave their farmlands. As a result, in the villages, there started the process of consolidation of small agricultural holdings as a big capital. In such terms, it was difficult to maintain the independence of small individual farms and reach the production volume sufficient to satisfy one's own needs. This naturally resulted in the need for identifying the type of business organization, which would protect them

against the pressure of big capital, help them stay independent, reduce their costs and increase their incomes, and cooperatives turned out to be of the right kind of undertaking.

In Georgia too, the establishment of cooperatives is associated with the worldwide industrial events. However, in the history of cooperatives development in Georgia, one can still identify three stages:

The first phase is associated with the time period from pre-industrialization to 1928. This period was marked by the appearance of the early forms of cooperatives in Georgia with their activities based on the principles of voluntariness, independence, mutual assistance, equality and fairness. Some of the first cooperative associations in Georgia were: "Viticulturists' Partnership" in Kakheti (1895), "Sericulturists' Partnership" in West Georgia (1898), Partnership "Kolkhida" in West Georgia (1900), "Cooperation of village Avlevi" in Kartli (1897), Trade Partnership "Shuamavali" (*Mediator*) (1893), Cooperative "Mtskemi" (*Shepherd*) (1912) and others.

The second phase covers the period following the October Revolution to the time of demolition of the Soviet Union, i.e. until the 1990s. This period was marked by the establishment of collective farms (Kolkhoz), which drastically differed from the cooperative associations operating with the principles of voluntariness and democratic management [11, p. 123]. The modification of the basic principles of cooperatives at the collective farms, compulsory affiliation of farmers and resultant inefficient business changed the farmers' mentality on the one hand and aroused general mistrust in cooperatives on the other hand.

The third phase is associated with the period from the 1990s to present. Gaining independence by Georgia and demolition of the Soviet Union in the 1990s was followed by a shift to the market economy, demolition of the collective farms and transfer of the lands to the possession of people. It is true that the Law on Entrepreneurs was adopted defining a cooperative as one of the forms of manufacturing, but no intense activities to found cooperatives in the rural areas were seen. In this period, owing to the liberal state policy [12, p.486] resulting in the chaos in many fields and grave social-economic conditions, the agricultural production fell, the reliance of the country on the import of foodstuff increased, and impoverishment of the people, migration from rural to urban areas and monopolization of lands by big businesses took place [14, p. 8].

In order to stop this process, the state named the establishment and development of the system of cooperatives in the rural areas. The results of the Parliamentary Elections in 2012 accelerated this process further as the development of the agricultural

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cooperatives system was declared one of the priorities of the country. In 2013, Georgia adopted the law on “Agricultural cooperatives”, The Agricultural Cooperative Development Agency was created to promote cooperatives and signed special European Union program „A European Union Programme Supporting Agriculture and Rural Development (ENPARD)“. Changes were made to the entrepreneurship and tax codes and Law “On Grants”. Despite such positive steps, the

situation with the establishment and development of agricultural cooperatives is still unfavorable.

At present, there are 1275 agricultural cooperatives registered in Georgia making 20% of the total number of the registered cooperatives in the country (there are total of 5098 cooperatives registered in Georgia). However, as Figure -1 shows, only 1,4% of them are operable.

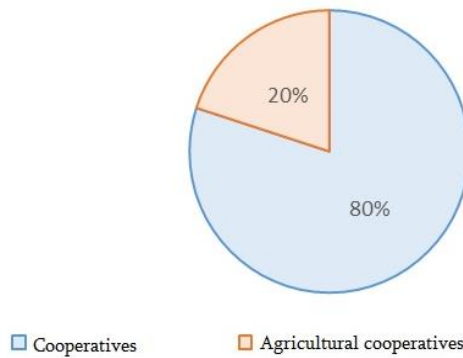


Figure 1 - Share of agricultural cooperatives in the total number of cooperatives

Methodology

To achieve the goal of the study related to the identification of the problems of the development of cooperatives, the study used such methods, as an interview and assessments provided by various organizations and experts’ opinions. Besides, the questionnaires were developed and distributed among the agricultural cooperatives both, via email and personally.

As of today, 72 of 170 agricultural cooperatives functioning in Georgia were selected and the information was obtained from 45 of them. The information from up to 30 cooperatives was received electronically and sent and received via web-portal SurveyMonkey allowing not only gathering, but also grouping, analyzing and presenting the answers as graphs and diagrams. The information from 15

cooperatives was received through personal communication. The obtained data were analyzed by using software MS Excel and graphical, grouping and comparison methods. The obtained information allows concluding that the gained results show the real picture about the existing state and development of the cooperatives.

Results and discussion

The first questionnaire of the study of cooperatives asked the respondents of their opinion about the major motif of establishing cooperatives. 10% of the respondents think it is cost reduction, 22% think it is mutual assistance, 45% think it is receiving grants, 18% think it is business initiation and 5% think of other factors (Figure - 2).

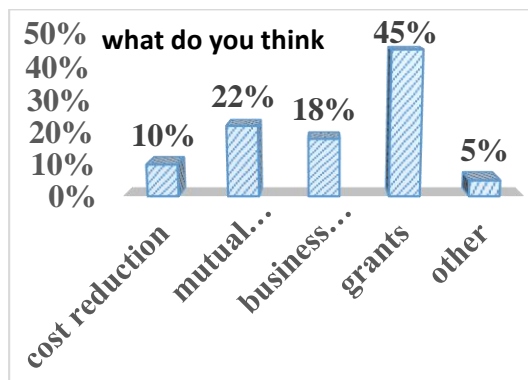


Figure 2 - Motif to establish cooperatives

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The second questionnaire of the study of cooperatives asked about the degree of influence of the affiliation with the cooperative on the income of the member. As the study demonstrated, 37% of the

cooperative members stated that such an affiliation helped their income growth and development, while 32% think it did not; others had no answer (Figure - 3).

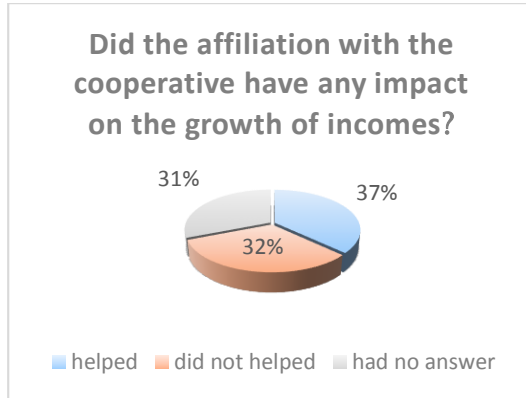


Figure 3 - Effects of the affiliation with the cooperative on the incomes of cooperative members

The third questionnaire of the study of cooperatives asked about the major problems on the way of efficient performance of the cooperatives. 43% of the respondents think it is incompetent and/or inexperienced management, 22% think it is lack of

organization, 18% think it is the lack of an action plan and spontaneity, 9% think it is lack of communication, etc. (Figure - 4).

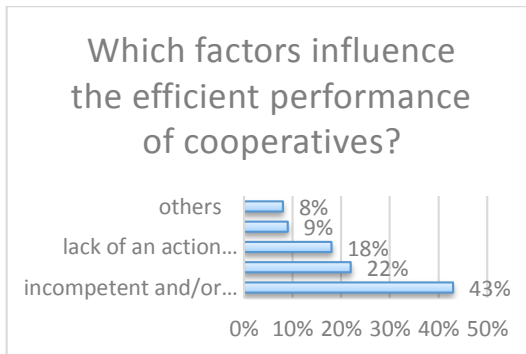


Figure 4 - Factors influencing the efficient performance of cooperatives

The fourth questionnaire of the study of cooperatives asked about who were the cooperative members and how many members are there. 85% of the respondents stated they were close relations or friends; 15% stated they were the people with common interests (Figure - 5).

As for the number of members in the cooperative, 90% of the respondents stated there are 10 members, 9% stated there are from 10 to 100 members, and only 1% stated that there are more than 100 members (Figure - 6).

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Figures 5-6 - Members and their number of agricultural cooperatives?

The fifth questionnaire of the study of cooperatives asked about the factors promoting the further development of agricultural cooperatives in Georgia. 44% of the respondents think the mentality of the farmers must change and make a particular accent on the realization of the major principles of a cooperative and understanding the benefit of

establishing a cooperative; 22% think it is improving one’s knowledge, 21% think it is the wish to start business and establish oneself on the market, 9% think it is access to the financial resources, 8% think it is tax allowances and legislative improvements, etc. (Figure - 7).

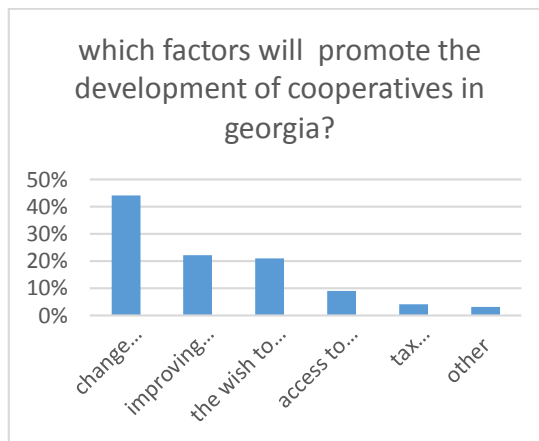


Figure 7 - Factors influencing the development of cooperatives

Conclusion

Thus, founding and establishing the agricultural cooperatives is a very important process in the field of agriculture. The results of the study evidence that if the agricultural cooperatives are to function successfully and play an important role in the

improvement of the economic wellbeing of the country, the following measures are recommended:

- Introducing versatile measures to help change the farmers’ mentality and continuously raising the farmers’ awareness to allow them to thoroughly understand the basic principles of the cooperatives.

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□ Giving them the basic knowledge about running business to help them develop elementary skills to run business.

□ Introducing the programs supporting the cooperatives by the state in order to initiate the formation of the cooperatives in the country. Important steps have been made in Georgia in this

respect so far and this issue must still be a priority in the future.

□ Improving the tax and legislative bases, as most of the cooperatives are still at the early stage of their development.

□ Increasing the access to financial resources. Availability of cheap and preferential credits fit to the interests of cooperatives is important.

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