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## Cooperation as an institutional mechanism for the development of agricultural business

**Scientific problem.** Agricultural entrepreneurship is a special form of application of labour. The enterprising within the scope of its development can be considered as a system of economic relations agricultural production. Agricultural business performance is influenced by different functional incentives of specific manner, including cooperation as an institutional mechanism.

Formulation of the problem of cooperative relations in the institutional aspect of agribusiness ratings is nothing new, but considering cooperation in this perspective, the objective is to define its functional roles as a system of rules, norms and traditions that form the environment for agrarian sharing of cooperative plan.

**Analysis of recent researches and publications.** The theoretical foundations of the concepts of cooperation were laid in studies of M. Tugan-Baranovsky [4] and A. Chayanov [5], also the problem of cooperation was studied in researches of such scholars as P. Sabluk [2], R. Blok [1], V. Zinovchuk [6], P. Kaninskyi [8], V. Zbarskyi [8], V. Honcharenko [1] and others. The institutional framework for cooperative

mechanism in the development of entrepreneurship in the agricultural sector is analysed by M. Malik [1, 2], F. Horbonos [7], V. Tsybal [3] and other researchers. But our task in this publication is you value and the functioning of cooperatives as the institutional mechanism of agricultural business.

**The objective of the article** is to determine the content characteristics of cooperation as an institutional mechanism, to estimate its influence on the development of agrarian enterprising considering tendencies of cooperative relations in the agricultural sector of Ukraine.

**Statement of the main results of the study.** The development of processes of cooperation in the agricultural sector of economy has institutional nature as institutionalism explores aspects of evolution and typology of economic systems whereas current economic system of agrarian enterprising in Ukraine has been evolutionally formed as a result of appropriate organizational and economic transformations. According to the institutional methodology the key feature of efficient cooperation is insurance of potential equilibrium of economic structures in the mechanism of market relations and optimization of transaction costs. Hence, we consider cooperation as an institutional mechanism of self-regulation of business; powerful institute

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for entrepreneurial risk minimization; a special system of social relations. This specific institutional mechanism for the formation of a democratic system of business combines collective and individual incentives.

Cooperation enables minimisation of transaction costs, in particular by overcoming the effects of the asymmetry of the field of information, eliminating risks of commercial disputes and associated costs. Therefore, we consider that the cooperation is an important market regulatory institution that provides activation of the agricultural business on a cooperative basis. Institutionalisation of cooperation as regulatory institution in the agricultural sector of Ukraine has its own characteristics, in particular related to unfavourable institutional environment. Cooperative form of organization of agricultural production is still perceived by farmers as equal collective farm.

Although we note that historically cooperation in Ukraine has been known for a long time. In the early 20 century, particularly in 1920-1930, the cooperative movement had involved approximately 60% of the population. But in the subsequent Soviet period the interest in cooperation (particularly in service sphere) has been almost absolutely decreased, as it cooperation was substantiated with command economy.

Nowadays in Ukraine only nearly 0.3% of the rural population is involved in cooperative relations, as this part is extremely insufficient, cooperation can not play an important role in the development of organized, demonopolized agricultural market.

Regarding cooperation as a regulatory institute of stimulation of agricultural enterprising process, we define it as a tool for protection of small commodity producers from unfair competition and monopolistic collusion. Due to the fact that currently in Ukraine agricultural cooperation has not reached the necessary level of development, we can conclude that a given institution is inefficient, particularly for the promotion of small and medium agribusiness.

Providing analytical data of the development of cooperation, we decipher service and production segments.

Service segment that traditionally has non-profit character and performs the function of social institution, shows decrease of the level of

spread of cooperative ideas. According to Ministry of Agrarian Policy of Ukraine, for the last four years, the number of agricultural service cooperatives in the country has increased by 389 units. By July 1, 2013 in Ukraine there were 953 gross agricultural service cooperatives. During the first half of this year their number has increased by 68 units. The largest number of cooperatives is in Zhytomyr (105), Vinnytsia (84), Ivano-Frankivsk (73) regions and the Autonomous Republic of Crimea (71), the smallest number of agricultural service enterprises is registered in Donetsk and Khmelnytsky regions (12). Out of the whole number of these cooperatives only 618 cooperatives are real agents of business. There are 142 cooperatives that are involved into agriculture and harvesting, 187 dairy cooperatives, 19 meat cooperatives, 64 cooperatives of fruits and vegetables, 33 cereal enterprises and 173 cooperatives involved in other services.

Agricultural service cooperatives have employed 29 thousand people that keep 22,3 thousand cattle stock, including 15.2 thousand cows. During the first half of 2013 these cooperatives sold more than 29 tons of milk and 7.1 thousand tonnes of crops, 3.3 tonnes of produce. 2518 jobs were created.

Agricultural service cooperatives were provided with financial support according to the Resolution of the Cabinet of Ministers of Ukraine on March 9, 2011 № 272 "On approval of the use of funds allocated in the state budget to support agricultural service cooperatives." Budget funds were sent on a competitive basis for financial support of these cooperatives the members of which are exclusively personal peasant households, farmers and farms, and natural persons, who are agricultural producers, for the purchase of agricultural machinery, equipment and facilities of domestic production in the volume of 90% of the cost of the machinery, excluding value added tax, in case of the 10% cost anterior payment by the cooperative.

Therein, service cooperatives are not considered by farmers as a form of economic activity of the future. Therefore, it is necessary to point out the fact that within a given segment of the agriculture cooperative structures and the institutional mechanism demonstrate institutional

inefficiency, since the formation of long-term institutional environment of economic exchange reflects deinstitutionalisation of cooperations.

International experience confirms that the institution of cooperation is the only effective economic entity, which protects the economic interests of the owner and creates conditions for effective activity. The manufacturing segment cooperatives in Ukraine are represented by ag-

ricultural cooperatives, which are formed on the basis of former collective economic forces. The development of these structures is accompanied by many difficulties. Agricultural cooperative business structures during the whole period of organizational and economic transformation in the agricultural sector, has been following the trend of reduction of the number of the companies of this form of management (Table).

#### Quantitative parameters of production cooperatives in agriculture of Ukraine\*

| Index                                                                     | 2003    | 2004    | 2004    | 2006    | 2007    | 2008    | 2009   | 2010  | 2011   | 2012  |
|---------------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|--------|-------|--------|-------|
| Number of producers' cooperatives, ed.                                    | 1452    | 1198    | 1041    | 845 The | 739     | 708     | 629    | 551   | 510    | 434   |
| <i>Changes to the previous year, + -, units</i>                           | -364    | -254    | -157    | -196    | -106    | -31     | -79    | -78   | -41    | -76   |
| The arable land in use, ha                                                | 2631, 0 | 2140.6  | 1811.1  | 1537.3  | 1268.7  | 1145.2  | 1025.1 | 941.3 | 788.9  | 701.8 |
| <i>Changes to the previous year, + -, ha</i>                              | -650.0  | -490.4  | -329.5  | -273.8  | -268.6  | -123, 5 | -120.1 | -83.8 | -152.4 | -87.1 |
| The average number of workers employed in agricultural production, people | 182,328 | 134,941 | 107,198 | 82253   | 60838   | 49843   | 42139  | 37274 | 29622  | 25003 |
| <i>Changes to the previous year, + -, persons</i>                         | -70,270 | -47,387 | -27,743 | -24,945 | -21,415 | -10,995 | -7704  | -4865 | -7652  | -4619 |

\* Calculated according to the State Statistics Service of Ukraine.

The carried out analysis of analytical information and evaluation of functionality features of cooperation as an institutional mechanism of agricultural enterprising have showed that cooperation should be defined as an institution, as it can be characterised by self-regulation of business provides self-consolidation of agricultural producers, for instance, service cooperatives; development and utilization of productive capacity of asset owners (land and property) on the basis of individual equity participation in the development of production and service cooperative structures.

**Conclusions.** The current trends of the development of cooperatives in agriculture in Ukraine substantiate the definition that institutional cooperation as a mechanism of the development of agricultural business demonstrates descending effect. There is a systematic

rejection, inefficiency of the institute of cooperatives, which accordingly reduces the effectiveness of social entrepreneurship in agricultural production. However, cooperation as an institutional mechanism is designed to ground and create favourable institutional environment for agribusiness development (especially for small and medium businesses) and to promote demonopolization of agricultural markets. Anti-monopoly policy in the markets for agricultural products and food is the main purpose of institutional cooperation as a mechanism for mutual market interactions. Cooperative structure is the institutional form that demonopolises market for agricultural products, aligns competition of small and large farmers, which is one of the main problems of modern agricultural management.

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## **The study of dependence of profitability in barley production upon economic indicators of agricultural enterprises**

**Scientific problem.** The important task of agricultural production is stable and permanent people's supply with food and increasing the economic efficiency in grain industry. Under all the conditions necessary for the industry's profitability, one of the prior tasks is to improve the efficiency of grain production in agricultural enterprises.

**Analysis of recent researches and publications.** In scientific research the chief attention is devoted to improving the efficiency in grain industry. It should be noted that to the current economic problems of efficiency in grain-production complex the research papers of such famous Ukrainian scientists as F. Horbonos [1], I. Levytska [5], V. Zhygadlo, O. Sikachyna [3], R. Litnarovych [6], V. Kurgan [4] and others were devoted.

**The objective of the article** – determination of dependency of barley production profitability from agricultural firms' economic indicators.

**Statement of the main results of the study.** The efficiency of agricultural production reflects its effectiveness and describes the quality of managing. At the same time it is necessary to distinguish the concept of effect and economic

efficiency. Effect means a consequence, the result of production in general or taking certain steps in agriculture. Economic efficiency points to the final result from the usage of production means and human labor, returning the total cost, that is generally defined as the correlation between the results of production and the cost of their gaining [4].

In evaluating the economic efficiency of agricultural farm production one must identify correctly the system of interrelated indicators, those are to reflect impartially its level. To determine the economic efficiency of agricultural enterprises in general we use the system of indicators that should be calculated as follows: the value of gross domestic product (GDP), the value of GDP and pure income, profits, the level of profitability.

One of the main indicators of economic efficiency in production is profitability, that characterizes the income and production profits. It shows the cost results not only of human, but also of materialized labor, the amount of using the production means, the quality of realized production, the level of production organization and its management [1]. Profitability indicators are necessary to evaluate the economic efficiency of management and resource usage.

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