

# FACTORS IMPACTING VIETNAMESE AGRICULTURAL CO-OPERATIVES' PERFORMANCE: A LITERATURE REVIEW

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## ABSTRACT:

This study investigates institutional and governance factors that characterize agricultural cooperatives in developing countries including Vietnam and affect the eventual sustainability of these agricultural cooperatives. This study identifies and examines five inherent weaknesses of traditional co-operative model. The study find that appropriate institutional arrangements and government support play an extremely important role in the successful development of cooperatives in Vietnam as well as other developing countries.

**Keywords:** Co-operative, institution, governance, co-operative movement.

## 1. Introduction

In recent years, the Government of Vietnam has committed itself to creating favorable environment for co-operative establishment as the two-fold strategy of sustainable rural development and small-sized enterprise development by issuing several supportive policies. However, the numbers of newly formed co-operatives have been declined seriously and remained stable since 1996 (Hai and Iwamoto, 2014; VCA, 2019). Moreover, Kirsh (1997), Tu (2011), and VCA (2018) reports that it is difficult to know the number of registered co-operatives which are actually active and thriving. Some of the small-holder co-operatives have registered but are not operating at all. In some cases, a small group of members established co-operative to get funding only from the government or other international donors. Despite of great effort in promoting development of co-operatives, agricultural co-operative just contributed to the GDP of the country only 8.1% in 2001, was 6.8% in 2005 and was down 5.2% in

2018 (Hai and Iwamoto, 2014; VCA, 2019). Therefore, the genuine and potential weaknesses inherent in conventional co-operatives, which cause failures and constrain establishment and development of co-operative in developing country like Vietnam need to be closely studied in order to avoid similar pitfalls in future. This study will emphasize the effects of institutional and governance indicators on success or failures of agricultural co-operatives in developing countries and Vietnam.

## 2. Methodologies

To meet the purposes of the study, secondary and primary data were collected in order to ensure that the findings are based on sufficient evidence (Cooper and Schindler, 2003; Sekaran, 2006; Yin, 2013; Wilson, 2014). Moreover, the use of multiple data sources was provided good triangulation (Bryman and Bell, 2015) in the identification of a series of significant incidents of strategic importance within the organisational timeline (from founding to the present day). Secondary data was obtained from

various sources such as academic literature and past research on co-operatives (books, journals and websites); annual reports from the Ministry of Planning and Investment, Ministry of Agriculture and Rural Development, and the Vietnam Co-operative Alliance (policy documents); reports on programs and projects working with agricultural co-operatives in Vietnam; and internal organisational reports, memos and presentations, and books of accounts. These secondary data were analysed using content analysis method. Content analysis allows the scholar to test theoretical issues to enhance understanding of the data. Through content analysis, it is possible to distil words into fewer content related themes as well as making valid inferences from text (Weber, 1990; Belk et al., 2012).

### **3. Inherent problems of traditional co-operatives in developing countries**

The review on the performance of co-operatives highlights that there are many challenging factors, which prevent co-operatives from achieving their objectives. The main challenges are in the organizational design of co-operative regarding management of and the environment where the co-operatives work in (Sexton and Iskow, 1988; Machethe, 1990; Banaszak, 2008; Mazzarol et al., 2014a). In the traditional co-operatives, these factors can be classified into institutional and governance factors. Chibanda et al. (2009) believed that institutional and governance factors play crucial role to the co-operative's performance and eventual sustainability. Recent studies from developing country (South Africa) conducted by Ortmann and King (2007b), and Chibanda et al. (2009) also reveal that institutional arrangements and good governance are crucial to constrain or facilitate establishment as well as development of co-operative enterprises initiated by groups of small-scale farmers.

North (1990), Klein (1998), Kherallah and Kirsten (2002) define institutions are the "rules of the game" of a society or, more formally, the humanly-devised constraints that structure human interaction. Institutions comprise of formal factors such as laws, contracts, markets and informal factors such as norms, traditions, customs, value systems, sociological trends. These set of conduct may facilitate transactions between, or govern economic decisions within, organizations

(Kherallah and Kirsten, 2002). While King (2002) defined corporate governance as a process of making the balance between economic and social aims as well as between personal and communal targets, in order to align as nearly as possible, the interest of individuals, corporations and society. Discipline, transparency, independence, accountability, responsibility, fairness and social responsibility are considered good characteristics of governance (King, 2002).

Cook (1995) argue that the institutional problems faced by traditional co-operatives include free rider, horizon, portfolio, control, and influence cost problems caused by vaguely-defined property. While Nilsson (1999) identified that free rider, horizon and portfolio problems are investment related while control and influence cost problems are decision-related. Chibanda et al. (2009) argues that a traditional co-operative may challenge by free-rider, horizon and portfolio problems at the first stage of its establishment, while control and influence cost problems could also emerge as the co-operative develop and enlarge its membership and business volume. Similarly, Ortmann and King (2007b) and Chibanda et al. (2009) also agree that these inherent problems could constrain investments in, and growth of, the Co-operative in the future when members' businesses grow, and wealth and patronage levels among members change. Difficulty in raising capital could leave many smallholder Co-operatives dependent upon external aid for their survival (Cook and Iliopoulos, 2000; Magingxa and Kamara, 2003). They are, thus, considered the most crucial factors that should be considered to improve the performance (Cook, 1995; Cook and Iliopoulos, 2000; Chibanda et al., 2009; Mazzarol et al., 2014a).

The findings may apply to Vietnam's collective action as this nation is considered as less-developed country in which farmers are constrained by rather poor education and literacy. The question is to what extent these inherent weaknesses would constrain the establishment and development of co-operatives in the developing country like Vietnam.

### **4. Factors influencing on Vietnamese agricultural co-operatives' performance**

From the literature review, co-operatives in Vietnam currently face both institutional and governance challenges as expressed below.

#### 4.1. Governance factors

A growing literature emphasis that governance, widely identified as the process, which institutions determine how power is assigned, who should be involved, is important for economic growth (Saner and Wilson, 2003, Graham et al., 2003). Ortmann and King (2007b) believed that governance factors such as educating and training co-operative members, and enhancing their knowledge of co-operative principles and members' rights play a crucial role in the performance of co-operatives. In addition, Birchall (2005) argues that co-operatives that lack capital and business management capacity have had a quite disappointing performance in less-developed countries. The governance factors that would badly affect the development of co-operative in Vietnam are revealed by some recent studies includes governance structure, members' participation, membership, and management skills.

##### 4.1.1. Governance Structures

As other countries, the co-operative decisions in Vietnam are made by members based on one member one vote and open membership, the ICA-based principles of cooperation, regardless of members' investment in the co-operative. This may lead to the free-rider problem which definitely constrains co-operative growth (Cook, 1995).

##### 4.1.2. Members' participation

###### Poor reputation

Like the transitional countries in Europe the co-operatives were not looked favorably upon by most of the population. The farmers themselves are especially opposed to co-operative business. It is understandable because when the co-operatives were used by the government the people suffered. According to Wolz and Bao Duong (2010), with the negative image from the past, many co-operatives could not attract more membership as well as get bank loans even though they have good investment proposals.

###### Misconception about nature of co-operatives

Co-operative activities in social and economic areas were not clearly differentiated. In other words, the co-operatives are not purely economic units. It appears that their main goals are to do with maintaining political stability and reducing poverty in the rural areas (Kirsch, 1997, Wolz, 2000, Tu, 2011).

For the above reasons, co-operative members did not clearly understand the purpose of a co-operative.

how it functions, and what members' rights are. This could stem from their relative lack of education and training or from ignorance (due to inadequate information). The low level of members' commitment and participation could be expected in this situation (Chibanda et al., 2009). Moreover, Sterberg and Nilsson (2009) concluded that the more members participate in their co-operative, the more they will be committed to this organization.

##### 4.1.3. Membership

###### The membership structures

The proportion of farmer enrolment in ACs remains low. In general, the newly established agricultural co-operatives start with a relatively small membership (80-150 members). And majority of them are the middle strata of the farming population (Kirsch, 1997, Wolz, 2000, Hai and Iwamoto, 2014). In case the co-operative has been economically successful during the last years, its total value and the average value per member increase. Some co-operatives require from the new members to pay up this increased price for a share. In this case, it will become difficult for potential members to join as the price keeps on increasing. Therefore, if the co-operative becomes economically too successful there is the danger that potential new members will be left out. In some cases, co-operative members do not receive benefits greater than or indeed different from those who are non-members (Kirsch, 1997, Wolz, 2000, Wolz and Bao Duong, 2010). Therefore, existing members are reluctance for further commitment to patronize co-operative (Chibanda et al., 2009). This inherent weakness was named portfolio problem (Cook, 1995)

##### 4.3.4. Management skills

###### Poor management capacities

Majority of management board members are local farmers who are at low level of education and literacy. Just few of them have acquired specialised knowledge of marketing, accounting or management skills (Kirsch, 1997, Wolz, 2000, Wolz and Bao Duong, 2010). Seriously, agricultural co-operatives' educational degree of board management is lowest compared with other types co-operative in Vietnam (Hai and Iwamoto, 2014).

###### Inadequate specialized training

Most of the training courses offered by MARD are little use or irrelevant to co-operative. The training institutions located in Hanoi and Hồ Chí

Minh City where are quite far away from remote areas and a great effort of trainee is needed to be attended the courses (Kirsch, 1997, Khoa, 2012, Hai and Iwamoto, 2014). It is essential for the management to acquire skills and knowledge of business enterprise, because the operation of co-operative relies heavily on their expertise. Studies show that lack of adequate skills in management has contributed to co-operative's failures. Sexton and Iskow (1988) found that the failure of co-operative enterprises was primary due to low educational level of management board which may couple with ineffective management and passive membership. Nyoro and Ngugi (2007) identify that successful co-operative had staff and management committee, with relatively higher qualification than the unsuccessful ones. Management with required skills will be able to strategize on business volume, type of product and product quality, and for competing with counterparts in the market. Cook (1994) suggested that successful co-operative requires more organizational, communication, resource allocation and other leadership skills, than is required by IOF at the same conditions of marketplace.

#### **4.2. Institutional factors**

North (1990) believes that together with effective governance, good institutional factors play a crucial role in promoting a co-operative's performance.

##### *4.2.1. Political Institutions*

###### *The governing bodies of co-operatives*

At the present, co-operatives are under official management of the three various bodies (Nghiem, 2008). This management structure is challenging co-operatives because the three bodies are very low in collaboration. In some case, they issued some guidance, which overlap or contradict with each other (Kirsch, 1997). Both MARD and VCA adopt a heavy top-down approach when dealing with agricultural co-operatives. They do not care that co-operatives are member-oriented (bottom-up) and follows the three major principles (self-help, self-responsibility, and self-administration) (Wolz, 2000). Frances (2004) argued that political institutions create the political process that issue legislation and regulation. These institutions also determine the legal system and control the processes that produce and enforce the law. Co-operative evolution with weak institutions not only grows more

slowly in the long-standing, but also experience greater unstable (Frances, 2004).

##### *4.2.2. Government policies*

###### *Political motivation and control*

Kirsch (1997) and Wolz (2000) argue that there still seems to be some intervention by the local administration on the management of the co-operatives. This is particularly difficult to avoid in those areas where almost the whole population of the commune is also member of an agricultural co-operative. In some places, particularly in the North, Co-operatives are social-political organizations led by the party. In some case, co-operatives were established mainly to meet the political and social interests of the communist party rather than those of the family farmers. Farmers, for this reason, were not keen to join. Crawford (1997) argue that any attempt to divert the purpose and resources of co-operative enterprises to the support of particular political goals adversely impact on co-operative development. This is considered as contributory factor to control problem in conventional co-operatives (Cook, 1995)

##### *4.2.3. Legal and regulatory framework*

Unclear and inadequate government policies on the development of agricultural co-operatives

Tu (2011) and Khoa (2012) report that although Co-operative Law have been enacted since 1996 and revised in 2003 and 2012, the guidance for implement the law from Government still contains many problems and unclear points. Policy mechanism is lacking, so the implementation process is confused. Moreover, there is a lack of trained and qualified staff to manage co-operative federations at higher levels when it comes to forming federations of agricultural co-operatives. According to Nyoro and Ngugi (2007), weak legal and regulatory frameworks lead to corrupt and manipulative behaviour, and weak regulatory environment also make co-operatives vulnerable to exploitation by deceitful businessmen. Moreover, Coulter and Onumah (2002) identify that the lack of supportive regulatory framework and disabling policies are among the issues that affect the development of market-oriented co-operatives.

##### *4.2.4. Economic institutions*

Frances (2004) concludes that the role of political institutions in producing of economic institutions means that economic institutions will not always be created in ways that aim to maximize

economic growth. However, the distribution of political power can change over time as the political and economic environment change and create an appetite for efficiency-enhancing change in economic institutions. The economic institution will be discussed in respect to financial markets and product markets.

#### 4.2.5. Financial markets

##### Lack of capital resources

Capital assets of co-operatives are very limited, majority of co-operatives are very short of operating funds. The value of share capital is quite small (\$10 – \$15), but it is difficult to raise capital (43% AC members are poor and landless farmers). Many co-operatives have outstanding debts of the members (Kirsch, 1997, Wolz, 2000). According to Ortmann and King (2007a), agricultural co-operatives are also business in nature, so they are in need of capital. If the co-operative does not have equity or assets financed from equity, they may face with difficulty of borrowing. Financial institutions are profit making organizations that are risk averse and are designed to make as much profit as possible at minimal risk for their shareholders. Hence, the higher the project risk, the less likely the co-operative will get funding without collateral (Ortmann and King, 2007a). However, assistance may also contribute to free-rider problems as this may attract members who are after the benefit and not committed to co-operative success. Chibanda et al. (2009) revealed that some farmers were establishing co-operative as a mean of getting government grants other than forming a genuine co-operative enterprise.

#### 4.2.6. Business volume

##### Service diversification at low speed

According to Tu (2011) and Hai and IWAMOTO (2014), most co-operatives provide only “pure” and simple agricultural-related services without expanding their business lines, because of a lack of capital and poor facilities.

Weak linkages among the activities of the co-operatives

There is no exchange of views and experience among the managers of various agricultural co-operatives themselves (Tu, 2011, Hai and Iwamoto, 2014). Lacking of vertical and horizontal integrations among co-operatives in the same region is also inherent factor for co-operative development (Nghiem, 2008). Nyoro and Ngugi

(2007) conduct their qualitative research and found that the co-operative which are more members and handled large business volumes, were the more successful ones. This is because as the volume increases, the cost of transaction per unit item is expected to be reduced. However, as mentioned by Cook (1995), Influence cost problem can arise in a co-operative with a wide range of activities.

In summary, several associated factors are told to hinder the performance of agricultural co-operatives in Vietnam that include institutional and governance factors as above-mentioned. Therefore, the genuine and potential weaknesses need to be closely studied in order to avoid similar pitfalls in future.

### 5. Practical and Theoretical Contributions

The practical contributions of this study are threefold. First, the research findings are expected to be applied effectively for the sustainable development of agricultural co-operatives in the context of Vietnam. Second, this study will also improve the understanding of challenges facing agricultural co-operatives so that government, policy makers, development partners, donors and promoters of co-operatives in the country understand co-operative related-policy and legal and regulatory frameworks that need amend to improve co-operatives' performances. Finally, the study is also helpful to other researchers as a stepping-stone to organizational and business development of credible, viable and sustainable agricultural co-operatives in developing countries.

In terms of theoretical contributions, the research first helps co-operatives' promoters, policy makers, legal and regulatory institutions, academicians and the co-operators to understand institutional and governance issues related to co-operatives' philosophy, values and principles. Secondly, it helps stakeholders in academic sector in designing academic and training curriculum in co-operatives development; training or reference manuals on co-operative formation and management; and organizations assessment tools for auditing co-operatives' organizations and enterprises.

### 6. Conclusion

The results suggest that the performance of the agricultural cooperatives was influenced by institutional and governance problems. Institutional problems, which stem from a poorly

defined property rights in traditional cooperatives, give rise to low levels of equity and debt capital, reliance on government funding, low levels of investment, and subsequent loss of members. While governance problems are strongly linked with the ballot system (absence of secret ballot), low levels of education, lack of production and management skills training, weak marketing

arrangements and consequent low returns to members as patrons or investors. To promote good institutions and good governance among agricultural cooperatives in Vietnam, current government support for cooperatives provides an incentive for businesses to compromise their institutional arrangements in order to access financial and extension support services ■

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## **NHỮNG YẾU TỐ TÁC ĐỘNG ĐẾN HIỆU QUẢ HOẠT ĐỘNG SẢN XUẤT KINH DOANH CỦA HTX NÔNG NGHIỆP Ở VIỆT NAM: TỔNG LƯỢC CÁC NGHIÊN CỨU**

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Nghiên cứu này nhằm chỉ ra những tác động quan trọng của các yếu tố thể chế và quản trị đến đặc điểm và hoạt động của các hợp tác xã nông nghiệp tại các nước đang phát triển, trong đó có Việt Nam. Bên cạnh đó, năm khuyết điểm quan trọng của mô hình hợp tác xã truyền thống cũng được nhận dạng và thảo luận.

Nghiên cứu đã kết luận rằng yếu tố thể chế thích hợp và cơ chế quản trị tốt là những nhân tố cực kỳ quan trọng, góp phần vào sự thành công và phát triển của HTX tại Việt Nam, cũng như các quốc gia đang phát triển khác.

**Từ khóa:** Hợp tác xã (HTX), thể chế, quản trị, sự phát triển của HTX.