

The Effect of Unfair Trading Practices on the Performance of Agricultural Cooperatives [†]

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Abstract: In the European agri-food sector, operators with substantial bargaining power often engage in unfair trading practices (UTPs). Our paper aims to empirically examine the occurrence of UTPs and their influence on the performance of cooperatives. To fulfill the goal of our paper, we collected responses from 109 cooperatives in Greece after the transposition of a specialized EU Directive (i.e., Directive (EU) 2019/633). We found that, on average, the sampled cooperatives encountered three prohibited (“black”) UTPs, while all reported at least one prohibited UTP. Moreover, the two most commonly reported practices (i.e., “unduly late payments” and “buyers’ demand that suppliers pay for the deterioration or loss of products that occurred after ownership transfer”) exerted a significant negative influence on cooperative performance, even in the presence of a proficient Board of Directors. Consequently, policymakers may need to pay more attention to UTPs and ensure that the national enforcement authorities are well-equipped to act rapidly and effectively against offenders.

Keywords: unfair trading practices; agricultural cooperatives; performance



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1. Introduction

The power imbalance between actors in the food chain, which is closely associated with the increasing concentration of markets [1], repeatedly results in unfair behaviors, particularly to the detriment of the chain stakeholders with the lowest bargaining power (i.e., agricultural producers) [2]. In the European Union (EU), the Common Agricultural Policy (CAP) contains measures that aim to strengthen farmers’ position in the food supply chain, including start-up funding for producer groups and regulatory exemptions from competition law for producer organizations [3]. Still, operators with substantial bargaining power (e.g., traders, retailers) continue to impose pressure on the weaker actors in the supply chain, giving rise to various unfair trading practices (e.g., short-notice order cancellations, unduly late payments) [4]. In response to these concerns, the EU issued a Directive (i.e., [5]) on unfair trading practices (UTPs) aiming at protecting weaker suppliers (primarily farmers) and their organizations (e.g., cooperatives) against their buyers.

Despite the renewed interest at a policy-making level (i.e., the EU Directive) and the recent surge of specialized policy reports on UTPs (e.g., [2,6]), only a few studies have empirically investigated the incidence of UTPs in the agri-food sector and their consequences (e.g., [4,7]). Interestingly, the effects of UTPs on cooperatives have been largely overlooked. To the best of our knowledge, only Di Marcantonio et al. [4,8] and Russo et al. [9] have studied the impact of UTPs on producer-owned groups. More specifically, Di Marcantonio et al. [4] performed a farm survey with 1258 dairy producers in five EU regions and found some weak evidence about producer organizations’ role in helping farmers to set fairer contractual arrangements. Similarly, Di Marcantonio et al. [8]

conducted a farm survey with 1061 dairy producers in four EU regions and showed that membership in producer organizations makes farmers less likely to report UTPs. Finally, Russo et al. [9] measured fairness perceptions using a sample of 85 Italian kiwi fruit producers. They concluded that membership in producer-owned groups raises the probability that a farmer perceives a transaction as fair, but the countervailing power bestowed by collective action does not offset all unfair practices in the same way.

Consequently, little is still known about the actual presence of UTPs and what they induce, especially in producer-owned organizations like agricultural cooperatives, which farmers form to help them deal with power imbalances and unfair market behaviors, among others. Our paper aims to fill this knowledge gap and empirically examine the occurrence of UTPs and their influence on the performance of cooperatives. On top of studying the effect of UTPs on cooperative performance, we set out to explore the influence of the quality of the Board of Directors (BoD) as a cooperative's BoD customarily deals with its buyers.

2. Materials and Methods

To fulfill the goal of our paper, we administered a survey among cooperatives in Greece. We drew a sample from the official national registry of cooperatives in Greece (i.e., [10]). We targeted cooperatives from two of the most productive regions, namely Central Macedonia and Thessaly. From the 400 cooperatives officially registered in these regions at the time of the study, we randomly selected 200 and contacted two types of key informants (i.e., general managers and commercial managers). Those who agreed to participate were emailed a link to an online survey. After removing 13 questionnaires with incomplete responses, our sample size was 109, with an effective response rate of 54.5%.

To collect the responses, we used a structured questionnaire with sections on background characteristics (i.e., region, key informant type, and whether the cooperative offered perishable products), the presence of UTPs (i.e., whether the cooperatives experienced the prohibited "black" practices stipulated in the EU Directive; see Appendix A), the BoD quality (i.e., general satisfaction with the BoD, trust in BoD members, the competence of BoD members, experienced BoD members, and BoD vision to develop the coop), and the perception of cooperative performance (i.e., sales volume, profitability, market share, and new market entry). The constructs we used for BoD quality and cooperative performance proved to be sufficiently reliable and valid.

3. Results

Interestingly, while some of the UTPs did not occur at all (i.e., "payments requested but not related to a specific transaction" and "misuse of trade secrets"), all cooperatives reported at least one UTP. We also found that the three most common ones (see Table 1) were experienced by the vast majority of cooperatives (>60%). Perhaps it should not be surprising that "unduly late payments" and "unilateral changes in supply agreements" are so common. However, the high occurrence of "the risk of loss and deterioration transferred to suppliers" warrants special attention. Moreover, the practice that was added by the Greek transposition law was reported by 1/5 of the respondents (i.e., "the buyer demands from the seller(s), in writing or orally, to sell a certain quantity of their products without at the same time committing themselves to the purchase price"; we titled this as UTP "one-way commitment" in Table 1). This suggests that the decision of the policymakers to include this UTP in the transposition document (i.e., [11]) was right. Finally, on average, the participating cooperatives were subject to about three UTPs.

Table 1. Results of OLS regression analysis predicting cooperative performance.

Variables	Cooperative Performance (Standardized β)
<i>Control variables</i>	
Region	0.02
Role	0.01
Perishable products offered	0.08
<i>Independent variables-UTPs</i>	
Unduly late payments (86%)	−0.19 **
Short-notice order cancellations (33%)	−0.08
Unilateral changes in supply agreements (62%)	−0.01
Paying for loss or deterioration of products that occurred after ownership transfer (67%)	−0.21 **
Refusal of a written confirmation (8%)	−0.03
Commercial retaliation (11%)	0.04
Transferring the costs of examining customer complaints (4%)	0.10
One-way commitment (22%)	0.01
<i>Independent variables-other</i>	
BoD quality	0.77 **
R ²	0.68
F	20.40 **

Notes: β values are standardized coefficients; ** $p < 0.01$; The percentages for UTPs represent the share of cooperatives that experienced the respective UTPs in their usual transactions at least once in the previous year.

Using an OLS regression model, we then tested the UTPs’ influence on cooperative performance, but we also explored the influence of “BoD quality”. In addition, we entered the three background characteristics as control variables. Table 1 presents the regression results. We found that only the two most common UTPs significantly and adversely affected performance. That is, “unduly late payments” and “risk of loss and deterioration” were significantly and negatively associated with cooperative performance ($\beta = -0.19, p < 0.01$, and $\beta = -0.21, p < 0.01$, respectively). Furthermore, “BoD quality” had a strong positive effect on cooperative performance ($\beta = 0.77, p < 0.01$). As for the control variables, none of them exhibited any significant effect.

4. Discussion and Conclusions

Taken together, our survey results suggest that UTPs are widespread, and some are experienced by most of the cooperatives in the sample. Moreover, the two most commonly reported “black” practices exert a significant negative influence on cooperative performance, even in the presence of a proficient BoD. If such UTPs undermine producer groups’ capacity to perform well, one may wonder how individual producers may cope with the ever-increasing competition in the food chain.

Overall, this paper offers fresh evidence of UTPs’ occurrence in the agri-food sector and is among the few to empirically document UTPs’ detrimental effects on cooperative organizations. The results contribute to the nascent UTPs-related literature, providing novel insights into the mark of UTPs on the weaker chain actors’ organizations. They also advance cooperative literature, improving our understanding of an external peril that harms cooperative performance. Finally, the findings of this paper have important policy implications. That is, policymakers may need to pay more attention to UTPs, particularly to the impactful ones, and ensure that the national enforcement authorities are well-equipped to act rapidly and effectively against offenders.

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Appendix A

The EU Directive (i.e., [5]) required Member States to prohibit a specific set of unfair practices, splitting them into two lists. The first list contained practices that are regarded as unfair per se (the “black” practices), while the second list consisted of practices that are deemed unfair if not explicitly agreed upon in the supply agreement (the “grey” practices). Member States could add other practices to the lists, extend the scope of listed prohibitions, make the prohibitions stricter, and even move practices from the “grey list” to the “black list”. We concentrated on the “black” practices because they constitute unconditional prohibitions.

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