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# **Support for Farmers' Cooperatives**

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## *Case Study Report* **The Role of Post- Socialist Cooperatives in Rural Communities in Lithuania**

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# Support for Farmers' Cooperatives

## *Case Study Report*

### **The role of post-socialist cooperatives in rural communities in Lithuania**

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## 1. Introduction

After privatization of the agricultural sector in the early nineties, new actors in rural development in Lithuania appeared. Kolkhozes (formally called “cooperatives”) were abolished and private farms started to establish. The collapse of the command economy in last decade of the 20th century provided the opportunity for new roles for cooperatives. The collapse created an institutional vacuum surrounding large “farm enterprises” – the dominant organizational form in former socialist agriculture – in which basic economic functions failed to be properly performed (Gardner, Lerman, 2008). However, before reviving the cooperation process, Lithuanian farmers had to create a new concept of cooperation in line with the transformed economic and social environment.

After the occupation of Lithuania by the Soviet Union in 1940, private capital was taken out of the economy. Like in the whole of the Soviet Union, Lenin’s cooperative plan was implemented in Lithuania as well. This plan changed the nature of cooperative enterprises and declared that, under socialist conditions, the property of a cooperative is the same as public property. This declaration formed a basis to start the collectivization process in the countryside by establishing kolkhozes instead of private farms and socialist type consumer cooperatives instead of private commercial units.

When the implementation of the cooperative plan started in the post-war period in rural areas of Lithuania, the private land of farmers was nationalized including the land that belonged to the inter-war cooperatives. Ex-farmers were forced to become members of the collective farms called “kolkhozes”. Consumer cooperatives became the most important form of marketing in rural areas. The property of real Lithuanian cooperatives (factories, dairies, warehouses, elevators and other assets) was nationalized as well.

The impression could come up that kolkhozes and production cooperatives may have similar features, but in practice, kolkhozes violated the basic principles of cooperatives:

- First, kolkhozes were radically different from cooperatives in the application of the cooperative principles of voluntary membership. The rural population did not have any free choice to decide to become a member of kolkhozes – people were forced to become members.
- Second, the kolkhozes had the right to use all land being state property in the Soviet Union. This land was allotted to them gratuitously for an unlimited period of time. Inventory and other assets were owned by the kolkhozes as socialist public property, they did not belong to the members of the cooperatives (Sasnauskas, 1998).
- Third, each member of a cooperative generally has the right to exit from the cooperative at any time and receive a compensation for the ownership shares, payment for the assets assigned to this member, turnover and dividends benefit. In kolkhozes, this possibility did not exist, even not theoretically (Sasnauskas, 1998).
- Fourth, the management of kolkhozes was radically different from cooperatives in the application of democratic rules. The cooperative members are usually directly involved in decision-making process. Opposite to the cooperative experience, the opinion of members in kolkhozes was not respected and the managers of kolkhozes were not elected collectively by the membership but the Party Committee appointed these persons (Sasnauskas, 1998). Members also received very limited information about activities of the kolkhoz. Kolkhozes were subject to the rigid state planning, which did not provide them with the possibility to develop their own entrepreneurial strategies.

The functions of kolkhozes, too, were different as compared with traditional cooperatives. Over time, kolkhozes were responsible not only for production but also for social functions. Financial resources of kolkhozes were used for building sanatoriums, rest houses, kindergartens, cultural activities at the villages, etc.

Consequently, during the five decades of the Soviet period, the concept of cooperation in agricultural production and marketing was largely lost among the rural population of Lithuania.

The last perversion of the cooperative concept was proposed in the Gorbachev governing period. A new concept of cooperatives was legally approved based on the profit-seeking enterprise model. The Law on Cooperatives, enacted in May 1987, was perhaps the most radical of the economic reforms during the early part of the Gorbachev regime. For the first time since Lenin's New Economic Policy (NEP), the law permitted private ownership of businesses in the services, manufacturing, and foreign-trade sectors. The law initially imposed high taxes and employment restrictions, but it later was revised to avoid discouraging private-sector activities. Under this regulation, cooperative restaurants, shops, and manufacturers became part of the Soviet scene (Blaney, Gfoeller, 1993).

After restoration of the Lithuanian independence, the agricultural sector was transformed using new fundamental elements. Essential social and economic changes occurred driven by various forces. Kolkhozes, sovhozes and industrial companies were privatized and the establishment of private family farms started. After privatization, some kolkhozes were transformed into agricultural companies which differ from production cooperatives because they are managed by a small number of owners as joint stock companies. None of the kolkhozes and sovhozes was transformed into a cooperative.

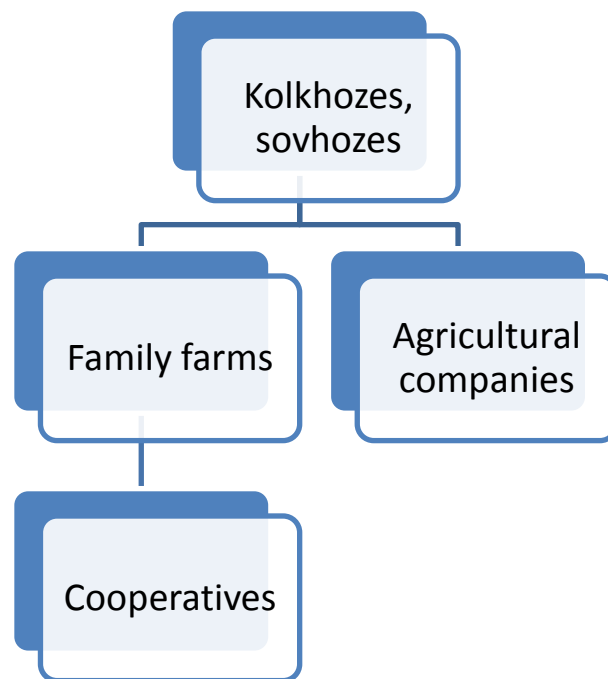


Figure 1. Process of cooperatives establishment in Lithuania

Although Lithuania's transition from a planned economy to a market economy has started more than two decades ago, the distortion and devaluation of the concepts of cooperation still prevails as a legacy from the Soviet times to date, significantly hampering the cooperative movement in Lithuania. As noted by Gardner and Lerman (2008) "a strong psychological resistance to cooperation, bred from years of abuse of the whole concept by socialist regimes" is common for transition countries in Central and Eastern Europe. Lithuania is not an exception in this respect. The Soviet-era legacy created cultural burdens that Lithuanian cooperatives have to overcome. A great deal has been done to overcome the historically rooted negative impressions of the past in the minds of agricultural producers or potential new farmers. However till now, old stereotypes and negative approaches to all collective activities are an important obstacle for the cooperation movement development in Lithuania. Only good examples demonstrated by successful Lithuanian cooperatives are able to change these attitudes and can contribute to revitalise cooperatives as an important factor of the economic and social development.

The assessment of the cooperation processes in Lithuania is based on contextual analysis of cooperatives that were established in Lithuania and underwent transition towards the cooperative entrepreneurship



model (Vidickiene, Gedminaite, 2009; Gargasas, 2009; Kuliesis, 2008; Melnikiene, 2006; Kedaitiene, 2006; Šimanskas, 1998; Ramanauskas, 2006).

A review of literature on cooperatives and the cooperative movement has shown that many authors are using different tools for assessing cooperation processes in different countries and their role in the economy (Staat, 1987; Barton, 1989; Nilsson, 1997; Dijk, 1997; USDA, 2002; Valentinov, 2007). The evaluation of the current state of development of agricultural cooperatives after reformation of social economies was intensively supported by many authors over the recent two decades (Lerman, 2004 and 2008; Swinnen, 2009; Sabates-Wheeler, 2005; van Bekkum, 1999; Gardner, 2008; Blaney, 1993).

The objective of this research is to test the following hypotheses suggested by the project “Support for Farmers’ Cooperatives (SFC)” leaders:

- At least informally, post-socialist production cooperatives still feel responsible for some social services and infrastructure provision which they were used to in the past.
- Numerous initiatives, for example in rural tourism and environmental protection, originate from agricultural cooperatives, often with public policy support.
- Networks formed by cooperatives represent sometimes one of the main sources of social capital from which economic development can grow.
- Cooperatives contribute to regional development in particular as regards strengthening the low income sector and improving living conditions for the rural population.

A case study analysis was used for performing this research. The following most successful Lithuanian cooperatives were studied:

- Cooperative “Pieno puta” (dairy sector).
- Cooperative “Ekotikslas” (dairy sector).

The following criteria were used for choosing the cooperatives:

- The cooperatives were successful in cooperation covering several municipalities.
- The economic situation of cooperatives is stable.

The data were collected from three main sources: a) interviews with the cooperative members and stakeholders; b) documents (the statutes, balances, financial reports); c) publication on cooperatives in media.

The interviews were carried on 20<sup>th</sup> April 2012. The list of interviewees is presented in the Table 1.

Table 1. The list of interviewees

	Name of the interviewee	Position
<b>Cooperative Pieno puta</b>		
1	Jurate Dovydeniene	Director
2	Tomas Cetvergas	Board member
3	Vidas Kuvikas	Board member
4	Dale Anilioniene	Board member
5	Danute Einoriene	Board member
6	Jane Zukauskienė	Board member

7	Algirdas Rapkevicius	Board member
8	Algirdas Lekaveckas	Board member
9	Vyda Sukiene	Chairperson of supervisory committee
<b>Cooperative Ekotikslas</b>		
1	Mindaugas Perkevicius	Director
2	Antanina Lekaitiene	Member of the cooperative
3	Joana Braciene	Member of the cooperative, finance manager

## **2. Case study of cooperative Pieno puta**

The agricultural cooperative Pieno puta was established in 2004 in the Salamiestis, Kupiskis municipality of Lithuania. The cooperative is working in the dairy sector. The main functions of this cooperative is logistics, supply of farm inputs, consulting and providing credits.

The establishment of the cooperative was initiated by the farmer V. Dragunas together with six other farmers. The group of farmers first started with an information campaign. The aim was to communicate with as many farmers as possible producing dairy in the region and to explain the benefits of the cooperation. At this time, cooperatives were still often compared with kolkhozes. People were afraid not to have possibility to cancel their membership in the cooperative or to lose their contribution in case of exit. Dairy processors and agricultural companies were also against the establishment of cooperatives considering them as a new competitor in the market.

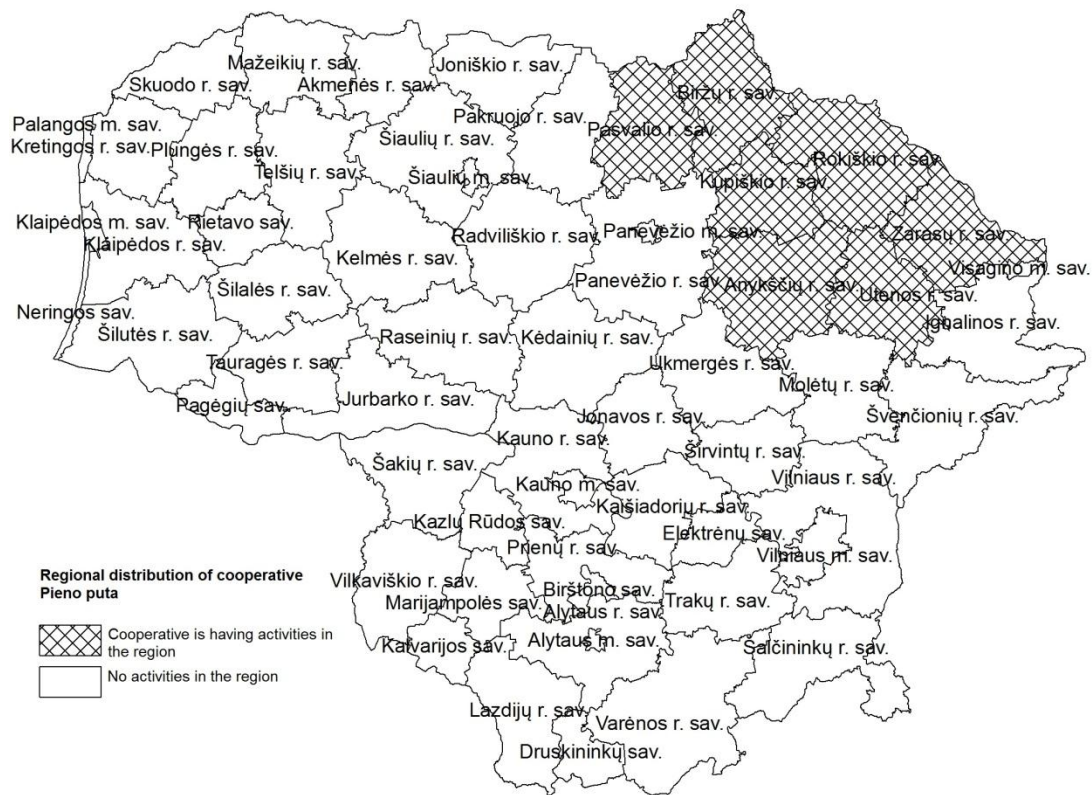
The most effective stimulator for the establishment of the cooperative Pieno puta by opinion of initiators was the experience of Western countries. Farmers were introduced to the main principles and activities of the cooperative by cooperative members from Germany. They also attended seminars and, as a result, established the cooperative.

Leaders of rural communities played a significant role in the development of the cooperative. Numerous village community leaders were leading the starting process of the cooperative by educating farmers to become members of the cooperative.

It took approximately four years to gain trust among the local farmers into the establishment of the cooperative. A significant contribution for this result was educational work and cooperative activities themselves. People were observing processes in the cooperative and, based on this, formulated their opinion. For example, members who exited from the cooperative and spread information about received financial compensation encouraged others to decrease their anxiousness. This example proved that there is a difference with kolkhozes where members did not receive any contribution for the ownership shares.

The successful development of the cooperative has encouraged farmers from neighbour regions to join this cooperative. At present, the agricultural cooperative Pieno puta is one of the largest cooperatives in Lithuania. The Cooperative had 1336 members in 2011. The cooperative members are farmers from 5 Lithuanian regions. The turnover of the cooperative was 6.6 million Euro in 2010 and the total balance was 332.648 Euro in 2010.

The territorial distribution of the cooperative is provided in Map 1.



Map 1. Territorial distribution of cooperative Pieno puta

The cooperative is open for new members. Membership restrictions are related to the geographical location of the farm (the farm should be on the milk collecting route) and the milk quality.

The cooperative focuses on these activities in the food chain:

1. Collecting farm products (mainly raw milk) including transportation and storage;
2. Collective bargaining;
3. Credits for the members.

The cooperative gradually started to organize new dairy collecting points within the territory to increase the effectiveness of dairy collection. Representatives of the cooperative started collective bargaining with processors to get an optimum price for the produce of cooperative members.

The cooperative concentrates mostly on economic issues and provides only some non-economic services to the members. Most of them are related with educational and information services. Informal events play an important role for gathering new ideas, discussing on innovations, cooperating with others, etc. In practice, rural communities and local action groups (LAG) within the territory of the municipality are responsible for social projects in rural areas in Lithuania.

Government support and exemption of taxes did not affect the choice of farmers to establish the cooperative, neither in the process of establishment nor later. At the time when the cooperative was established, potential members were focused on the benefit of cooperative activities and felt self-sufficient to create the organisation. As the cooperative membership was successful in the later years, the cooperative had no need to apply for any project to get government or EU support.

The main success factors by opinion of cooperative Board members are:

- Maintaining an open line of communication with members;
- Selecting and developing a friendly and active Board as well as quality management team;
- Providing complex but at the same time individualized and specialized services for each member;

- Members do the majority of their business with the cooperative.

The cooperative pays high attention to the individual educational work with farmers. At the main office of the cooperative, they can receive advice and consultations on accountancy, newest information on dairy farming and market prices on milk and resources needed for dairy farming at the time most convenient to the members. Thus, their knowledge is raised on innovations and opportunities to develop their business. An open line of communication also helps to increase the number of members. The cooperative is especially attractive to small farmers as they can propose ideas for the cooperative equally with other cooperative members despite their value added to the cooperative. At the same time, the individual members feel more important and influential.

Farmers are pleased that the cooperative does exist in the region and they are members of the cooperative. There are only some farmers who exited the cooperative. Most of the members are satisfied with the chosen legal status of a cooperative compared with a joint venture company. Although management decisions can be taken quicker and easier at a joint venture company, all farmers want to have decision-making power. Decisions are taken by all members regardless of farm size, and nobody feels unsatisfied. There seem to be no major discrepancies between the large and the small farmers.

The Board is the main decision-making body of the cooperative. The Board consists of 9 members who are elected by the General Assembly of Members. Most of them are members of the cooperative. However, there are not many members in the cooperative who have an education in business administration and part of them is not willing to take these responsibilities. For these reasons, administrative personnel who are non-members are elected Board members as well. The cooperative organizes further education for the members of the Board by organising training in the cooperative or sending them to the seminars outside the cooperative. They are also learning and getting new knowledge from each other at the cooperative meetings.

Both members and non-members participate at the administrative management of the cooperative. Non-members are professionals in business administration. If some members of the Board propose economically unreasonable or legally impossible decisions because of lack of knowledge, the administrative staff patiently explains why such proposal is not working out and fills the gaps in their knowledge. By the opinion of the Board members, about 80 percent of cooperative's success depends on the cooperative administration.

The cooperative also has a supervisory committee. The supervisory committee consists only of cooperative members. By opinion of the board, cooperative members feel more responsible for supervision functions than external experts.

The cooperative has more than 1300 members and operates in several regions and, for this reason, it is sometimes difficult to make collective decisions, especially for innovation. Experience has shown that success can only be achieved when more time is spent on preparatory work. First, all new ideas are discussed by the Board members and the Board takes biggest responsibility in making decisions to implement these ideas. Members usually are afraid to fail. The aim is to convince them to assess business risks and to explain that it is impossible to avoid risk in any decision. Decision-making significantly depends on highlighting the importance of the innovation for the future of the cooperative and a comparison of the future value with the necessary investment. If members get answers to their questions, there are neither empty debates nor resistance to innovation at the final decision-making procedure at the General Assembly meeting of the cooperative.

An open line of communication with the members has contributed to form a strong and friendly team. The Board and the administration cooperate very closely and spend a lot of time on discussions. They are organizing their work for making the cooperative very strong; hence, the results are satisfying. The process to decision making is difficult but the Board is very capable and a lot of new ideas have been initiated.

Farmers of these regions have an alternative to get similar services from other business entities. However, the cooperative has an advantage because the cooperative members receive the entire package. The service package of the cooperative includes raw milk collection and marketing; purchasing of feed for good prices and delivering it directly to the farms as well as provision of all needed information for the business of the members. Each farmer has the opportunity to supply raw milk directly to the processors but in this case farmers do not get any additional services and they need to handle everything alone. The cooperative is taking care of each member's specific needs. Some farmers request to collect raw milk directly from their farms; others deliver raw milk to the milk collection points independently. The cooperative is organising all activities in the way to be able to provide all services that are needed by its members for their business. Thus a number of farmers were saved from going bankrupt by the cooperative. The cooperative attracts also large farmers by proposing important consultations for large farmers on accounting and taxes as well as innovations in dairy sector.

Only farmers are members of this cooperative. Most of the members have highly specialized farms operating only in the dairy sector. The cooperative members have the legal obligation to deliver all their products to the cooperative. The cooperative contributes to the regional development in particular by strengthening the low income farmers. Small farmers get the biggest benefit because individually they would not have any possibility to sell raw milk for the price they are getting as cooperative members. Thus, the cooperative is a facilitator for improving living conditions for the rural population.

When members of the cooperative felt the benefits of cooperation, the cooperative began to actively participate in various associations. The cooperative is member of the associations "Karvute" and "Kooperacijos kelias" (*Cooperative way*). The Director of the cooperative Jurate Dovydeniene is the leader of the Association Kooperacijos kelias. The cooperative is planning to become a member of the Association "Pieno gamintoju asociacija" (*Dairy Producer Association*). The cooperative receives many benefits from these associations. Both associations have larger scale, possibility and power to influence decisions, make proposals and be as a tool for the cooperatives not to lose their viability. The Association Kooperacijos kelias is also Copa-Cogeca member.

The cooperative activities have influenced the situation in the villages and across the region. The improved the economic situation of the rural regions because the incomes of farmers are increasing due to higher raw milk prices. By the opinion of the members of the Board, the cooperative Pieno puta is like a trade union which represents the interest of the farmers in discussions with the Ministry of Agriculture and other official institutions and prevents farmers from huge processors exploitation. The economic and social benefit of the cooperative is available not only for the cooperative members but also for the overall rural community. Information and knowledge from the cooperative members are spreading to the community members by communicating with them face to face. Rural residents learn about innovations by participating in seminars and training organised by the cooperative because participation is allowed also for non-members. The members of the cooperative are proud to belong to this cooperative.

The Board members opinion about the cooperative's future was focused on the discussion about what is a "real" cooperative, the functions of a cooperative and whether a cooperative must be engaged in agricultural production. In their view, logistics and marketing are the most relevant problems the farmers are currently faced with and dealing with them individually is no real solution to these problems. Therefore, cooperation in the value chain is particularly useful and promising.

The results of testing the hypotheses suggested by project "Support for Farmers' Cooperatives (SFC)" leaders are summarised below:

- H1. At least informally, post-socialist production cooperatives still feel responsible for some social services and infrastructure provision which they were used to in the past. *The hypothesis is rejected.*

The results of the case study had shown that the cooperative does not feel responsible for any social services and physical infrastructure which had been true for kolkhozes during the Soviet period. The cooperative was established as a new organisation joining new private farms. The latter were established after the period of privatisation of land and other property owned by the former

kolkhozes and sovhozes. The role and functions of the cooperative Pieno puta are totally different from that of past kolkhozes. The cooperative plays an important role in creating a sound business infrastructure for the farmers.

- H2. Numerous initiatives, for example in rural tourism and environmental protection, originate from agricultural cooperatives, often with public policy support. *The hypothesis is partially corroborated.*

The cooperative has no initiatives in rural tourism and environmental protection. However, some initiatives in spreading information and organising training and seminars not only for the members of the cooperative but also for the rural inhabitants of the region have been initiated.

- H3. Networks formed by cooperatives represent sometimes one of the main sources of social capital from which economic development can grow. *The hypothesis is partially corroborated.*

The main source of social capital in rural areas in Lithuania is local action groups (LAGs). However, the cooperative Pieno puta can be regarded as an important source for social capital formation in the region as it has very close relations with the rural inhabitants of the region. The cooperative itself sets a good example for teamwork, interpersonal trust and life-long learning by its members. And these are important tools to stimulate economic development and growth in the future.

- H4. Cooperatives contribute to regional development in particular as regards strengthening the low income sector and improving living conditions for the rural population. *The hypothesis is corroborated.*

The results of the case study confirmed that cooperative Pieno puta contributes to the regional development. The existence of the cooperative is very important for the low income farmers. Small farmers being members of this cooperative get high benefit because individually they would not have the chance to sell raw milk for the price they are getting as cooperative members. The cooperative is thus a tool for improving the living conditions for rural inhabitants.

### 3. Case study of the cooperative Ekotikslas

Five years ago, members of the Young Farmers Club in the Rokiskis Region got an idea about cooperation and use it as a tool for selling of various organic products in larger quantities and at higher prices. As a result, the agricultural cooperative Ekotikslas was established in 2006.

The cooperative started from collecting organic milk, including transportation and realization of the products. As it was decided to focus only on organic products it became a necessity to expand the cooperative's activities to new regions because there were not sufficient organic dairy farmers in the Rokiskis Region.

Only farmers are members of this cooperative. Most of the members have non-specialized farms. The cooperative members have the legal obligation to deliver all their products to the cooperative. The cooperative is very open for new members and applies only few requirements for farmers to become a member. Membership restrictions are related to geographical location of farm and product quality. The cooperative has 6 per cent of non-active members. The influence of non-active members on decision making is low.

Having purposefully and consistently grown over all those years, the cooperative is currently mainly oriented towards collecting organic milk not only from the Rokiskis Region but also from other neighbouring regions. In the near future, the cooperative is planning to occupy still free parts of the market and to collect milk from organic dairy farms in Southern Lithuania. Mindaugas Petkevicius, the Director of the Ekotikslas cooperative mentioned that it was a good idea to meet with group of farmers from the neighbour region of Ukmerge who had the intention to create a very similar cooperative in their region and has agreed to cooperate. The collection of dairy products started in Rokiskis and Ukmerge regions. Higher price for their production was a good motivation to continue their activity by comparing with lower prices for dairy products when they were working individually. The territorial distribution of the cooperative is provided in Map 2.





## Map 2. Territorial distribution of the cooperative Ekotikslas in Lithuania

The cooperative has 32 members. Among them, 26 members are certified organic dairy farmers with 2000 ha of certified land and 1000 cows. Farms differ in size. Most of the farmers in this cooperative are keeping, on average, 20–35 cows. The smallest farms have 4 cows and the largest farm – 79 cows. The high-quality and environmentally friendly organic milk Collected is sold to one of the largest secondary dairy processing private company Rokiskio suris in Lithuania. In 2010, the turnover of the cooperative was 806.080 Euro and the total balance 18.648 Euro.

The cooperative focused on these activities in the food chain:

- Collecting farm products (including transport and storage);
- Collective bargaining.

The Board is the main decision-making body of the cooperative. The Board consists of 3 members of the cooperative, who have been elected by the General Assembly of Members. The maximum number of years of Board membership is 2 years. The Board members are in charge of operational management of the cooperative. The cooperative also has a supervisory committee. The supervisory committee consists only of cooperative members. By opinion of the cooperative director, the cooperative members take the responsibility of the supervision function more seriously than external experts.

Each year, the cooperative is applying for organic certification procedure to get the certification from the public institution Ekoagros which is organic certification authority in Lithuania. The certification states that the production meets the requirements as provided in normative documents. The certification of organic farms is based on the production system certification.

Certification of farms is voluntarily. Currently, the Ekotikslas cooperative has certified organic milk transportation and marketing activities. The cooperative also has a primary and secondary processing certificate for producing intermediary products for the food industry and final consumer products. In addition to regulatory authorities, the cooperative has its own control system and is monitoring that farmers provide organic dairy products.

In 2011, the cooperative won the annual nomination of “The collector of dairy of the year 2011” from among the about 100 dairy farmers organized by accredited central laboratory of milk testing in Lithuania “Pieno tyrimai”. This laboratory performs all the compulsory composition and quality testing of purchased cow milk for payment purposes as well as all the necessity testing of raw milk for dairy herd improvement. Thus the cooperative was recognized as one of the best among 75 milk collectors in Lithuania.

Farmers’ decision to choose the cooperative as a legal form was not influenced by government support or tax advantages. At the time when the cooperative was established, potential members were attracted by the benefit of the cooperative’s activities. The main reason for selection of this legal form was a higher raw milk price that could be obtained within the cooperative and only at a later time, the tax advantages for cooperatives were applied.

The cooperative is officially recognized as agricultural cooperative. Having this status, the cooperative is entitled to apply for state support. However, it has not yet applied for any project to get state funding or EU support resources.

For the members of the cooperative, the support for organic farming is important. Farmers producing organic milk have higher cost and lower amount of production per cow as compared with non-organic farmers. Slightly higher prices for organic farm products do not cover all the costs. In addition, it is quite expensive to collect organic milk because the amount of collected organic dairy production is relatively small. Only direct payments can be a motivation for choosing organic dairy farming.

The main challenge of the cooperative is related with its growth strategy. The Director of the cooperative M. Petkevicius reported that the cooperative was established rather quickly but on later it was difficult to

increase the number of members. Farmers usually are not willing to trust a cooperative, it is necessary to prove that it is trustworthy. There is a need to talk to each farmer personally about the benefits of cooperation, its strengths, weaknesses, opportunities, services and other aspects. Farmers should be aware that selling products at an appropriate price will only be possible if farmers cooperate and do not operate individually. It took 4 years to convince the local farmers of the benefits of cooperation and to develop of social trust. In 2010, the cooperative succeeded to convince almost all farmers that were on the driving route for collecting dairy to become members of the cooperative.

The cooperative has a growth strategy for the future. In general, according to the director, there is a threat in organic farming – some farmers decided to return to conventional farming because of the strict requirements and continuous control. However, they are replaced by newly established organic farms. In addition, organic farming is more supported by young farmers in Lithuania, so the cooperative is looking to the future with confidence. Although finding new members close to the current driving route for collecting dairy is a slow process. The new farmers engaged in organic farming have a long two-year transition period while their production will be certified as organic. The cooperative must wait for their certification results before it can accept them as new members.

The limited possibilities to find new members at the place are not an obstacle to cooperative growth. The analysis showed that there is no cooperation between organic dairy farms in Southern Lithuania. The cooperative Ekotikslas is planning to develop a new route to this part of Lithuania.

Another important strategic plan of the cooperative is business infrastructure development for the members. Members as an alternative have the opportunity to supply organic raw milk directly to the processor (for example, UAB Rokiskio pienas) but, in this case, they do not receive any service package from processor as compared to that of the cooperative. The cooperative services are collection of raw milk, all necessary information directly to the farm, purchasing of feed for a good price and delivering it directly to the farm. These services are very important for the cooperative members since organic production requires specific feed and specific information about new requirements for organic farming. Getting these services from the cooperative, they need not acquire them by own efforts. In addition, some of them have small farms and any entity or processor would not agree to collect milk directly from those small farms.

Package delivery service is one of the most important advantages of the cooperative. Therefore, the main activities of the cooperative are logistics and marketing, supplemented by additional services. The cooperative also provides other services to its members, for example, supply of farm inputs like mineral and organic additives. The cooperative further rents machines and devices at nominal prices to its members, for example laser devices for the treatment and prevention of cow mastitis, joint pain and others diseases. It also provides information on legislation, especially on organic farming, updates on changes in requirements, gives consultations on different documentation practices, etc.

The cooperative is also acting as intermediate institution to help farmers to sell their other organic products, such as grain, vegetables, etc. The cooperative knows what members are growing and provides information on the range of products for sale. In case there is a purchase request from outside, the potential purchaser can get the direct farmer contact.

The cooperative has a lot of plans for the future. One of the main plans is to develop cooperation between the producers of other organic products. The cooperative is planning to propose to grow organic corn and soybean feed in a cooperative way for the cooperative members in the near future. Requirements of organic farming were the main reason for this idea. Currently, organic farming does not allow to add any non-organic product to the animal diet. This implies that the food intake of animals lacks energy and protein and yield is significantly lower than on conventional farms.

The cooperative was also planning to participate more actively in the food chain and to focus on primary and secondary processing producing intermediary products for the food industry as well as final consumer products but the economic crisis in 2009 changed these plans. The cooperative conducted a market analysis, monitoring also prices in stores. However, it was afraid that the total cost for producing

final consumer products might be higher than the average price of organic products in the Lithuanian market.

Currently, the cooperative is organizing meetings with potential collectors of dairy in other neighbouring EU member states with the aim to avoid losses of possible sharp decreases in organic dairy prices in Lithuania and to ensure organic dairy price stability for the members of the cooperative.

Another cooperative strength is the innovative approach of its members. For this reason, it is not difficult to make collective decisions on innovations. Members usually show a similar thinking. In addition, people interested in ecology understand innovation more widely as their understanding about ecology involves friendliness not only to the nature but also to the people. Therefore, they are more likely to harmonize their opinions in discussions. The cooperative administration team also tries to use advanced management technics. To facilitate discussion at the meetings, the team announces in advance a few alternative options for the use of the cooperative profit or other important issues.

As the cooperative is not large, it is easier for them to find common solutions. All members try to attend meetings. About 70 per cent of members expressed their interest to actively participate in the management of the cooperative.

The cooperative is a member of the associations “Karvutė”, “Kooperacijos kelias” and “Ekologinių ūkininkų asociacija”. The cooperative gets benefit from this activity. Various proposals and requirements for public institutions are the result of its membership in these associations.

The cooperative is trying to create a good team by organising various events and to promote informal communication. Members are organizing summer and winter events at different places on the member farms.

Low income farmers get the largest benefit from cooperative activities. The engagement in organic farming is highest with small and medium farmers, and for them it is important to be member of the cooperative. Small-scale farmer Antanina Lekaitiene highlighted that as a member of the cooperative she receives great benefit from useful information and higher raw milk prices provided by the cooperative.

Since the cooperative is not large, its activities do not affect the situation within the region significantly. However, educational activities organized by the cooperative have an important impact on the region, especially in organic farming.

The results of testing the following hypothesis suggested by project “Support for Farmers’ Cooperatives (SFC)” leaders is summarised below:

- H1. At least informally, post-socialist production cooperatives still feel responsible for some social services and infrastructure provision which they were used to in the past. *The hypothesis is rejected.*

The results of the case study show that the cooperatives do not feel responsible for rendering any social services and providing physical infrastructure like this was done by kolkhozes during the Soviet period. The cooperative was established as a new organisation joining private farms that were established after land and other property of kolkhozes and sovhozes had been privatised. The role and functions of the cooperative Ekotikslas are totally different from that of a kolkhoz. The cooperative plays an important role in creating a sound business infrastructure for the member-farmers.

- H2. Numerous initiatives, for example in rural tourism and environmental protection, originate from agricultural cooperatives, often with public policy support. *The hypothesis is rejected.*

The cooperative has not started any initiatives in rural tourism, environmental protection or other related businesses.

- H3. Networks formed by cooperatives represent sometimes one of the main sources of social capital from which economic development can grow. *The hypothesis is partially corroborated.*

The main source of social capital in rural areas in Lithuania is local action groups (LAGs). However, the cooperative Ekotikslas can be regarded as one of the sources forming intellectual and social capital in the region since it is a multiplier of knowledge on green consuming and producing organic products.

- H4. The cooperatives contribute to regional development in particular as regards strengthening the low income sector and improving living conditions for the rural population. The hypothesis is corroborated.

The results of the case study confirmed that the cooperative Ekotikslas contributes to regional development. The existence of the cooperative is important for the small farmers which dominate the sector of organic production. The establishment of the cooperative strengthens the low-income sector within the region by encouraging small farmers to start organic farming.

#### 4. Analysis by comparison

The two cooperatives Pieno puta and Ekotikslas were selected for the case study analysis in Lithuania. Both cooperatives operate in the dairy sector. In this sector, the cooperation movement is most advanced in Lithuania and for the farmers it is very important to have cooperation opportunities. In 2010, 69 active and successful cooperatives were operating in this sector in Lithuania. They collected about 15 –17 % of all raw milk produced in Lithuania in that same year. Currently the market share of the cooperatives in the dairy sector is about 25 per cent. Low raw milk prices forced a number of small farmers to create cooperatives and cooperate more intensively not only for yielding higher the raw milk prices, but also for improving the milk collection and solve storage problems. Development of cooperation in the dairy sector reduces negative pressure exerted by the dairy processors. In certain cases, dairy processors are offering higher raw milk prices to large farm-members of cooperatives with the aim to disintegrate these farmers from the cooperative. These processes are stimulated by a lack of cooperation between cooperatives and dairy processors.

The cooperative size may have a significant impact with regard to various organisational issues and strategies of the cooperatives. Therefore, the two dairy cooperatives selected for the case study analysis differ in size: Pieno puta as a large cooperative enterprise and the Ekotikslas cooperative as a small one.

The second major difference between the cooperatives is the production orientation: Ekotikslas engages in organic farming, while Pieno puta does traditional farming.

The results of the analysis show that there are more similarities than differences between the two selected cooperatives despite the differences in size and farming orientation. Both Pieno puta and Ekotikslas are the two most vital and successful Lithuanian cooperatives.

The case studies illustrate the steps made by the Lithuanian rural inhabitants to find the best way of cooperating. Newly established cooperatives concentrated on the stepwise development of new functions. Both cooperatives spent 4 years to convince potential members that group action offers more advantages to them. The organizational work was focused on creation of milk selling channels and strengthening the negotiation power of the local farmers.

In the opinion of the interviewed members of the cooperatives, their success is based on close communication between members as well as on creating a favourable business infrastructure for small farmers. Both cooperatives understand that it is important to maintain an open line of communication with the cooperative members.

In both cooperatives, farmers only can be members of the cooperative. Each member has one vote regardless whether the member trades large or small product quantities with the cooperative. Both cooperatives are of the same legal status. In both cases only members can be providers of equity capital. They are both open to new members. Both cooperatives are active in collective bargaining and collection of farm products.

Members do the majority of their business with the cooperative. In both cases, they have the legal obligation to deliver all their production to the cooperative. The cooperatives apply a differentiated pricing policy, i.e. members trading large volumes with the cooperative get a higher price. The other cooperative members which are small farmers agree with this price policy because they benefit from larger suppliers that stabilise the high price level and give them the opportunity to yield a good price too for their small quantities of dairy production.

The Board is the main decision-making body in both cooperatives. Each cooperative has a supervisory committee to which only members can be elected. Active participation is an important advantage of both cooperatives and they have only a small part of non-active members.

The cooperatives do not have members in other EU member states. They also do not source from foreign farmers who are not members.

Both cooperatives were born out of necessity and were not established as an organization to make use of state support measures launched for cooperative enterprises. Both cooperatives did not apply for such support funds.

The similarities of the cooperatives Pieno puta and Ekotikslas are shown in Table 2.

Table 2. Similarities and differences of Pieno puta and Ekotikslas cooperatives

<b>Similarities known in advance</b>	<b>Similarities resulted from case study</b>
The cooperatives were successful in cooperation covering several municipalities	Creating business infrastructure for farmers
Both cooperatives operate in dairy sector	Focus on maintaining an open line of communication with cooperative members
The economic situation of the cooperatives is stable	Learning to work as team
	4 years spent to convince members that group action offers more advantages to them
	Strengthening negotiation power of farmers
	Creation of selling channels
	No public support
	One legal organization
	Members of the cooperative only farmers
	Only members can be providers of equity capital
	One member – one vote
	Board is the main decision-making body of the cooperative
	Both cooperatives have a supervisory committee. Only members can be in the committee
	Members do the majority of their business with the cooperative
	Differentiated pricing policy
	Open for new members
	Insignificant part of non-active members
	Do not have members in other EU member states
	Do not source from foreign farmers who are not members of the cooperative

The major difference between Pieno puta and Ekotikslas cooperatives is their size. Pieno puta is a large cooperative; it had 1336 members in 2011. Ekotikslas is smaller and had 32 members in 2011. It is easier to get more members for larger cooperatives as they have better relations with rural communities in their

region. Moreover, Pieno puta is in the conventional milk business. The cooperative Ekotikslas is oriented to organic dairy production and its invitation of new members depends not only on the needs of farmers to cooperate but also on the type of production. The conditions for organic farming are strictly defined, and it takes usually 2-3 years to fulfil these obligations.

In contrast to Ekotikslas, the cooperative Pieno puta does not only provide economic services but also non-economic services for its members, most of them are related with educational and information services. They are organising seminars for members that are important not only for the members of the cooperative but also for the rural community. Informal events are also important in the cooperative, they are of great significance for gathering new ideas, discussing on innovations, cooperation with other, etc.

Both cooperatives also differ in the structure of their Boards. The smaller cooperative Ekotikslas has only cooperative members in the Board. Members of the Board have enough knowledge needed for the decision-making procedure, new ideas and innovations. As the cooperative attracts people who are interested in ecological ideas, they usually differ from most farmers by having a broader view on many topics about environment, management and improvement. Furthermore, they have a high motivation to implement innovations. The cooperative Pieno puta is a group of traditional farms and most of its members have different strategies. Their Board consists not only of members but also of non-member professionals. It is very important to have professionals in the cooperative for making responsible decisions and perform a reasonable management. The same is true for the operational management.

Both cooperatives also exhibit differences in specialization. Farmers belonging to the cooperative Ekotikslas have mixed specialisation farms. Most of these farms are rather small. Dairy production is only one part of their business; they are also active in other lines of organic production, such as vegetables, fruits, etc. The members of bigger cooperatives have, as a rule, highly specialized farms. They produce higher quantities of dairy products and they are interested in a high specialization of their farms.

The differences of the cooperatives Pieno puta and Ekotikslas are provided in Table 3.

Table 3. Differences of the cooperatives Pieno puta and Ekotikslas

Differences known in advance	Differences resulted from case study
Size of the cooperatives: 1336 versus 32 members in 2011	High specialization versus low specialization farms
Orientation to organic farming by Ekotikslas and to traditional farming by Pieno puta	Only members can belong to the Board in small cooperative. In large – also non-member professionals
	Operational management: Ekotikslas – director from the Board; Pieno puta – employed professional director
	Focus training on ecologic issues in Ekotikslas and on business administration in Pieno puta

## 5. Discussion (reflection on findings)

In Western societies, there is the trend that cooperatives develop managerially more towards corporations where ownership and management is not in the hands of farmer-members any more. It is also questionable that cooperatives flourish rather due to tax advantages and regulatory treatment than as a result of the cooperative principles as mechanisms of economic organization for the business. Can the story be different in the transition economies?

The end of state supervision created new opportunities for the cooperative movement in Lithuania. However, the first initiators of cooperatives more than a decade after the privatization of the agricultural sector had to work very hard to change the negative attitude towards collective activities based on following features of kolkhozes:

- The rural population did not have any free choice to decide to become a member of kolkhozes – they were forced to become members.
- Private land of farmers became state property in kolkhozes. Inventory and other property of kolkhozes were public property and did not belong to the members of cooperative.
- The members of the cooperative had no right to secede from the cooperative at any time.
- Members leaving the kolkhoz did not receive any compensation for their ownership shares, payment for the asset assigned to the member, turnover and dividends benefit.
- The opinion of members in kolkhozes was not respected and managers of kolkhozes were not elected collectively by the members but the Party Committee appointed these persons. Members also received very limited information.
- Kolkhozes were subject to rigid state planning, they did have little chances to develop their own entrepreneurship.

The institutional heritage of large collective farming was a great obstacle for the initiators of cooperatives under the conditions of market economy. They had to find their own way how to encourage local farmers to join the cooperative and create relationships of trust. However, in the last five years it became evident that the Soviet experiences have faded away and becoming more and more irrelevant for the present attitudes of farmers.

Besides governance and property rights issues, it is important to understand the role of cooperatives in imperfect agricultural markets (Chaddad, 2003; Fulton, 2003). The presented case studies show that the role and functions of post-soviet agricultural cooperatives in Lithuania are totally different from that of kolkhozes. The members of the cooperatives, i.e. the family farms, are the carriers of the production function in the value chain, while the cooperatives take responsibility for the remaining functions in the value chain: inbound and outbound logistics, marketing and sales, services.



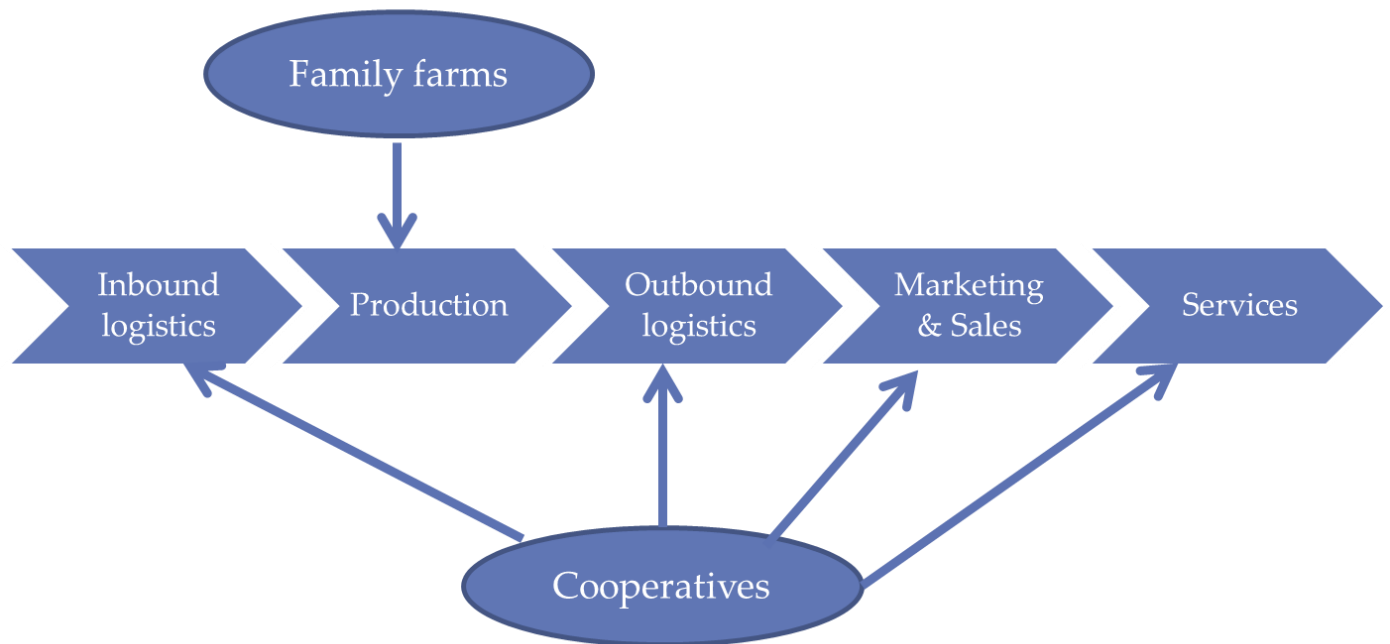


Figure 2. Functions of cooperative in the value chain

Many observers have noted for transition economies that farming is economically most difficult as a result of marketing pressures and increased input supply. Often this is attributed to monopolies or monopsonies, but it may equally likely to be a problem of high transaction costs in an environment of an underdeveloped marketing infrastructure, including information, transportation, and storage services (Gardner, Lerman, 2008).

All mentioned problems have been important in the Lithuanian agricultural sector after the reestablishment of the Lithuanian independence. Cooperative enterprises owned by farmers try to remedy these problems. The groups of farmers who were facing the danger of economic and social exclusion started to create cooperative enterprises. A lot of small Lithuanian dairy farms faced high transaction costs in both product marketing and input acquisition, and that was a reason for establishing cooperative enterprises and playing an active role in the farming economy.

Despite the resistance to cooperatives stemming from the long-term abuse of this concept under the Soviet regime, the development of cooperatives in the Lithuanian economy since the demise of socialist agriculture provide successful experiments of economic organization based on networking. In our opinion, the outcome of this experiment will be crucial for the future of agriculture in the country. A major element of these experiments involves the role and functioning of cooperatives.

Three distinct roles of cooperatives are prominent in Lithuania as successors of the former collective farm system. The first role of the cooperative is to obtain market power for farmers in relation to buyers of their products and providers of goods and services to the farm enterprise. Lithuanian cooperatives have been especially successful in speeding up and facilitating the creation of selling channels, particularly in the dairy sector as well as strengthening the negotiation power where crucial market failures occurred after former State monopolies had been transferred into private hands. The second role of the cooperative is to build up business infrastructure. The third role of the cooperative is to create social capital.

Most Lithuanian cooperatives have successfully performed their first role, but have large failed in their second and third functions. The analysed cooperatives have been successful in all three roles. In the first

line, they focused on compensating for the absence of product and service markets in Lithuania. Fulfilling this function was extremely important for the low-income sector. Thanks to the existence of the cooperative in the region, the small livestock holders of 2-5 cows were able to survive. The first role of the cooperative was also important for the farmers when being faced by the monopoly or monopsony power of traders that buy their products or sell inputs to them.

As markets become more developed, the ways in which farmers cooperate have evolved. The cooperatives started to create business infrastructure, thus fulfilling their second function. At this stage of development, the cooperatives started real collaboration. When members during the first stage of development were convinced that group action offers more advantages, they started to tackle new tasks that required responsible membership. The building of business infrastructure according to the needs of the farmers was only possible by creating and maintaining an open line of communication among the cooperative members and by learning to work as a team.

In many West European countries, the term “cooperative” has become synonymous with the Third Sector (Levi, Davis, 2008). This approach confers on cooperatives a leading role in the organizational sphere, including the “social economy”. In Lithuania, this approach does not apply.

Social capital is created by new ways where social and economic components are integrated. In the opinion of the leaders of both analysed cooperatives, social capital does not consist in social networks per se, but in the resources that these networks may give access to.

The successful cooperatives based their organizational model on the perception that collaboration is not a 21st century skill but a 21st century essential. Presenting two examples of successful collaborations, it is argued that the survival of the cooperatives at the current stage of economic and social development requires the establishment of teamwork, interpersonal trust and learning.

For the two analysed cooperatives it can be stated that the organizational model of cooperative activities based on this concept helped them to avoid some of “the classical economic problems that have been blamed for the failure of cooperatives in agricultural production in the West – problems of incentives of managers and workers (in allocation of on-farm effort, mobilization of members’ savings, distribution of the cooperative’s net returns, and means of treating off-farm income earned by members), of raising capital for investment, or of reaching collective decisions needed for example to adopt new technology or change the product mix to meet market trends” (Gardner, Lerman, 2008). The investigated cooperatives were successful in reaching collective decisions on distribution of the cooperative’s net returns or on the implementation of innovations.

The two analysed success stories provide also evidence that cooperatives may flourish rather by applying the advantages of the cooperative principles to the economic organization of their business operations than by using special state support measures.

## 6. Conclusions

The case studies show that cooperative firms play a set of roles in Lithuanian economy that are rarely noted in economic literature. The economic literature has focused primarily on the ownership and management of cooperatives. We argue that this focus gives an incomplete picture. The success of the Lithuanian cooperatives is primarily a result of their role and functions, and to a minor extent due to their organizational structure arising from the type of ownership and control.

Most of the Lithuanian cooperatives focus on farmers' networking with the aim to improve their position in the food chain by creating business infrastructure and forward the implementation of innovations in the Lithuanian agriculture. Created at the beginning of 21 century, they offer insights into new business strategies focused on collaboration, trust and learning.

Lithuanian farmers are cooperating with others to form a business benefit not only from economies of scale but also from other synergistic effects. They focus on synergistic effects by cooperation of people with special organizational and technical skills for teamwork and for marketing synergy. At the same time, the cooperation helps to find the best logistic decisions in the food chain operations.

Cooperatives also play an important role in negotiating best prices for their members. This effect increases the incomes of non-members as well, as investor-owned competitors are forced to pay higher prices to compete. The cooperatives' presence, therefore, contributes to rural and regional development, in particular as regards the strengthening the low-income sector.

The cooperatives are important as tool to teach teamwork to cooperative members and build trust in relationships. Networks formed by cooperatives in rural areas train persons with most important skills for all business and non-profit organizations at the current stage of economic and social development of society. In this context, we regard a cooperative as organizational form to be a potential breeding ground of economic development in rural regions and in the overall economy.

New functions taken by the cooperatives in the value chain implies the need of the EU and government support in the future:

- Logistics, marketing and services development;
- Business infrastructure development in rural areas;
- Training on team-building and networking techniques, leadership and entrepreneurship;
- Knowledge transfer on new technologies and other innovations in agriculture and the food chain .

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