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Department of Rural Communication and Extension

Master Thesis related to the module
“Knowledge and Innovation Management”

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Master Thesis

Development Constraints of Armenian Dairy Cooperatives

(Transition country case)

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Abstract

The dairy sector of Armenia, with its annual production and processing capacity of 320,000 tones of milk (MOA and FAO, 2002), was one of the leading ones in the USSR (MINASYAN, E., 2006). After the collapse of the USSR, enormous structural changes, accompanied with comprehensive privatization, resulted in disintegration of the former horizontal and vertical linkages in the dairy sector (WHITE, J. and GORTON, M. 2004). This brought about an incomplete usage of the production and processing potential of the sector (MOA and FAO, 2002).

A number of studies have shown that dairy cooperatives may solve many problems regarding horizontal (primary production) and vertical (marketing) integration in the dairy sector during transition (HOVHANNISYAN, V. *et al.*, 2004; URUTYAN, V., 2006; etc.). However, despite the explicit advantages of dairy cooperatives, recent development trends in Armenia, as a transition country, are somewhat inconsistent regarding success (increasing annual turnover and membership) and diffusion (establishment of new dairy cooperatives) of dairy cooperatives (COUTURE, M-F. *et al.*, 2002; GARDNER, B. and LERMAN, Z., 2006). This contributes to the non use of the existing production capacities both by dairy farmers and processors.

In parallel to the literature review a survey in 14 dairy cooperatives located in 5 regions of Armenia was conducted. The results are statistically analysed to identify dairy cooperatives' milk production and marketing success related parameters. This study also identifies the obstacles hindering the further development of the dairy cooperatives and elaborates the possible solutions to this problem. The analysis and interpretation of gathered empirical data is done through the complex technique of frequency, comparative, principal components of factor and multiple regression analysis.

Research analysis found unsatisfactory state of various cooperative's characteristics throughout surveyed cooperatives. The surveyed members had inappropriate perceptions about their cooperatives and the managers. The state of the basic cooperative principles was quite troublesome; especially user-owner and user-controller principles. Surveyed members were in average discontent with the provision of the important goods and services in their cooperatives. This situation was reasoned by the reluctance and negligence of the cooperatives' management. Another cause for the latter state was also an absence of the solidarity among members in the cooperatives. Aforementioned shortcomings explained the state of poor participation by members in their cooperatives. There was also identified that the poor participation, in turn, was aggravating the troublesome state of aforementioned measures necessary for cooperatives' development. The study revealed that the phenomenon of the vicious cycle was prevailing in the surveyed cooperatives.

A care was taken to understand the root causes of the existing problems. Analysis revealed that surveyed members' distrust towards their cooperatives was associated with their bad experience with the Soviet Era's collective farms and Gorbachev-perestroika's cooperatives. On the other hand, a well expressed personality trait of individualism was also hindering members' mobilization around common ownership and participation in their cooperatives. Further, it was also identified that members' misbehaviour in their cooperatives was significantly caused with the absence of the Law on Cooperatives in Armenian legislation.