MARKET ORIENTATION AND REGIONAL DEVELOPMENT: STRATEGIC AND STRUCTURAL ISSUES FOR THE AGRIBUSINESS SECTOR IN BALKANS

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Abstract: *In the countries of South Eastern Europe, within the European Union, there are regions where the agri-food sector plays a vital role in socioeconomic terms.The aim of this paper is to examine the relationship between the market orientation concept and the Regional development. It explains the structure of the market from the perspective of small- and medium-sized agri-food producer organizations and discusses marketing strategy implications. Based on an extensive literature search the paper by focusing on key components of the market orientation concept such as, organizational culture, innovation, customer orientation, marketing co-ordination, coalitions and collaborations, explores their impact on regional development.*

Keywords: Market orientation, innovation, collaboration, agri-food, regional development.

JEL Classification Codes: **Q13, R11**

1. INTRODUCTION

The primary sector of the economy in the countries of South Eastern Europe, within the European Union, held and continues to occupy an important position as a sector of economic activity and as a factor in maintaining social and economic cohesion of their regions.

Greece became a member of the European Union in January 1999 and Bulgaria and Romania became official members on January 2007 with agriculture being one of the most debated topics in the accession negotiations. As almost the half of the population of Bulgaria and Romania and the one third of the population of Greece lives in rural areas, there is no doubt that the rural economy and the regional development is of vital importance.

Despite the fact that Bulgaria and Romania have a common history of many years under communist regime and Greece, unlike the other candidates, has long tradition as a market economy, Greece is similar to the other two countries in that they are all dominated by small and rural farmers. Small scale producers are generally faced with many constraints deriving from the "industrialization" of agriculture, the market instability and volatility, the international competition, the rapid changes in the marketing channels and the climate change.

Therefore, looking to the future, the agribusiness sector in these Balkan countries, acting in an increasingly competitive and highly volatile environment has to become more market oriented in order to meet the current demands of the globalized economy. Having new modern small - and medium - sized agrifood producer organizations as driving force, the market orientation philosophy should form the basis for any regional agricultural effort.

Based on the above, following the Introduction, the Second Section defines the notion of market orientation and discusses the role of small producer organizations from a regional development perspective. Section Three presents the main socio-economic characteristics and developments in the study area. Section Four explores the effects of market oriented agribusiness organizations on regional development by focusing on key strategic attributes such as, organizational culture, innovation, customer orientation, marketing co-ordination, coalitions and collaborations. Ending we conclude that the “market oriented neo-producer organizations” are critical for sustainable agriculture development in Balkan agricultural regions and market orientation is a core element for promoting regional development and sustainable rural livelihoods.

2. BACKGROUND LITERATURE

2.1 Market orientation

Within Marketing concept the meaning of “Market orientation” intangible factor has received considerable attention from researchers during the last decades. The Market orientation has been conceptualized from many different general perspectives such as behavioral and cultural. The definitions of the most acknowledged importance among the used ones about its “Core concept” are:

- “market orientation is defined as organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organization wide responsiveness to it” (Kohli and Jaworski, 1990).
- “market orientation consists of three behavioural components and two decision Criteria- *customer orientation, competitor orientation, interfunctional coordination*, long-term focus and a profit objective –” (Narver and Slater, 1990).
- “we define customer orientation as the set of beliefs that puts the customer’s interest first, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise” (Deshpande, R. et al, 1993).
- “Market orientation represents superior skills in understanding and satisfying Customers” (Day, 1994).

Market orientation as an important firm-level factor, proactively or reactively, has an effect on organizational performance by improving current knowledge and skills and by developing new knowledge and skills (Jaworski and Kohli, 1993; Narver and Slater, 1990 Kyriakopoulos and Moorman, 2004). Although findings suggest that a market orientation is positively related to business performance in different types of markets and companies (Deshpande, Farley and Webster, 1993; Slater and Narver, 1994; Pelham and Wilson, 1996), the structure and the organizational culture of a company affect the notion of creating superior value to customers through continuous firm innovativeness.

Market orientation can be approached by two distinctive behaviours which are the market-driven and the market driving behaviour (Jaworski et al, 2000). Market-driven behaviour is characterized as reactive, it generates innovation and places the customer at the start of the processes. Market driving behaviour is characterized as proactive, it produces innovation and creates new customers and markets by shaping the structure, preferences and behaviours of all market stakeholders. (Hills and Sarin 2003; Kumar, Scheer, and Kotler 2002).

2.2 Regional development and producers collaborations

Cooperative organizations are a particular and globally formed type of economic activity which is amenable to specific rules that combine effectiveness with social sensitivity. As characteristically has been said, cooperatives are "an economic system with social substance". They are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity and they put these values into practice by following the principles of Voluntary and Open Membership, Democratic Member Control, Member Economic Participation, Autonomy and Independence, Education, Training and Information, Co-operation among Co-operatives, Concern for Community, according to the latest ratification of the International Cooperative Alliance, (ICA, 1995).

There are rural organizations that exist for different purposes and at different levels. They can take many forms, ranging from formal institutions, such as cooperatives, to informal producer groups and regional farm associations. In this study we focus on the small agribusiness producer organizations (POs) which are considered as formal rural organizations that are established on the initiative of the producers themselves, with the objective of improving farm income through improved production, marketing, and local processing activities and thus, to provide a common solution to shared problems that face the producers in an region (Rondot and Collion, 2001).

These rural Organizations are essential mechanisms for promoting rural development and sustainable rural livelihoods (FAO, 2006). According to ILO "The impact of Cooperatives in providing income to rural populations creates additional employment through multiplier effects including enabling other rural enterprises to grow and in turn provide local jobs". Farm families can benefit from Cooperative Organizations as their operation in the region helps increase the stability of the farming sector, improves their access to the markets for their products and strengthens the farmers' position in the agri-food chain (ILO, 2007).

From a local economic development perspective, the operation of co-operatives and other farmer/producer organizations has multiple contributions in their rural regions. This is due to the fact that they use local inputs that might be left unexploited and unused, enable job creation and, thereby, raise local incomes and generate regional taxes. They can also be a source of foreign exchange. Small Producers Organizations stimulate employment, sales, and incomes which are key aspects for local development (Trechter and King, 2000).

3. THE STRUCTURE IN THE STUDY AREA

During the lat decades, agribusinesses in Romania and Bulgaria faced two major challenges: ongoing structural changes in the transition from a communist command regime to a market economy and preparations to meet the challenge of European Union (EU) accession. Since these countries joined the EU the agribusiness landscape has changed rapidly under the new rules and regulations but yet needs more adaptations.

Both countries have a common history of many years under communist regime which has affected their perception of collective actions. Because of wider economic, historical, political and social considerations and having the negative experience of "co-operation" with large-scale collective farms, agricultural producers remained suspicious to being reorganised in co-operatives and other farmer/producer organizations once again (FAO, 2006). Nowadays within the EU, the farmers, particularly the small ones, in order to anticipate the complexities of new realities as well as to benefit from the CAP taking simultaneously advantage of the financial support available though the European Union, they have to change their organizational culture and to focus on the creation of strong associations and new generation cooperative organizations which better support the needs of their members. In Romania, a total of 44 producer groups are recognized based on national legislation and 4 producer groups and 1 producer organization are recognised based on EU regulation no. 1182/2007 (EDV, 2009). In Bulgaria 1156 Cooperatives with 726,305.5 ha agricultural land (Euricse, 2011) were found to operate in 2007. In contrast, in Greece, which is a full member of EU since 1999, there are over 6,350 co-operatives with 746.812 members and 114 Associations of Agricultural Cooperatives, number which is amongst the highest in Europe (Ministry of rural development and food, 2009). Greece, being many steps ahead from the other two countries could act as a source of exchange of information for the transition of the other two Balkan countries.

Romania is three times as big as Bulgaria and two times as big as Greece in population but Romania and Bulgaria have a very low rate of GDP and PPS per inhabitant in comparison to Greece and the Eu-27. The percentage of population at risk of poverty in all the three Balkan countries is very close and above the percentage of EU-27 (table 1).

Table 1. Population, GDP per inhabitant (EUR and PPS) and population at risk of poverty

	Population on 1 January 2009	**GDP per inhabitant 2009**		**Population at risk of poverty in % 2008 (1)**
		EUR	**PPS**	
EU-27	499 185 059	23 600	23 600	17
BG	7 606 551	4 500	10 400	21
GR	11 260 402	21 100 p	22 300 p	20
RO	21 498 616	5 800	10 400	23

(1) At-risk of poverty rate after social transfer – the share of persons below a defined poverty line, which is set as being below 60 % of the national median equivalised disposable income.
P *provisional* PPS *Purchasing power standard*
Source: Based on Eurostat (online data codes: demo_pjan, nama_gdp_c, ilc_li02)

The distribution of the population by the degree of urbanization in the three countries for 2009 (table 2) is higher in sparsely populated areas being 60, 7% in Romania, 53, 8 in Greece and 49, 8 in Bulgaria.

Table 2. Distribution of population by degree of urbanisation, 2009 (%) (1)

	Densely populated area	Intermediate urbanised area	Sparsely populated area
EU-27	47,2	26,5	26,3
BG	42,4	7,8	49,8
GR	36,7	9,5	53,8
RO	38,3	1,0	60,7

(1) Degree of urbanisation: Densely populated area: 500 inhabitants/km2 or more. Intermediate urbanised area: between 100 and 499 inhabitants/km2.Sparsely populated area: fewer than 100 inhabitants/km2.

Source: Based on Eurostat, EU-LFS (online data code: lfsa_pgauws)

Studying the statistical data from Eurostat and according to Table 3 there are noticeable differentiations among the rates of the agricultural holdings in the study area.

Table 3. Utilised Agricultural Area (UAA)*, growth rate of UAA and average UAA per Holding, 2003, 2005 and 2007

	UAA for holdings >1 ESU (1 000 ha)			**Growth of UAA (%)**			**Average UAA / holding (ha)**		
	2003	**2005**	**2007**	**2003/05**	**2005/07**	**2003/07**	**2003**	**2005**	**2007**
EU-27	16 633	161740	160 827	0.1	– 0.6	– 0.5	20.4	20.7	22
BG	2 629	2 488	2 867	– 5.4	15.3	9	16.7	21.1	24.3
GR	3 877	3 906	3 996	0.7	2.3	3.1	5.9	5.8	5.6
RO	10 624	10 337	9 498	– 2.7	– 8.1	– 10.6	8.8	8.4	11

Source: Based on Eurostat agricultural statistics 2008-2009

In Greece the number of agricultural holdings has increased in the period 2003–2007. The data in 2007, shows that, in Greece, about 711 100 agricultural holdings had an economic size of at least one European size unit (ESU) compared to 678 100 in 2005, which counts a 4.9 % increase and these farms made use of 4.00 million hectares (ha) of utilized agricultural area (UAA), which counts a 2.3 % more than in 2005 (Eurostat, 2008).

In the case of Bulgaria and Romania the number of agricultural holdings was reduced by over 25 % between 2003 and 2007. 64% of Romanian farms produced mainly for own consumption (Eurostat, 2009) whilst in Bulgaria farms under 1 European Size Unit (ESU) suffered a significant reduction (-10%), while the number of farms with at least 1 European Size Unit (ESU) decreased by 0, 2% (Eurostat, 2010).

In 2007, about 117 800 agricultural holdings in Bulgaria had an economic size of at least one European size unit (ESU), compared to 118 100 in 2005 and these farms made use of 2.87 million hectares (ha) of utilized agricultural area, (15.3 % more than in 2005), which makes the average size of a holding in Bulgaria 24.3 ha. In 2007, 17 % of the agricultural area was farmed by its owners and the regularly employed family labor force decreased by 10 % from 2005 to 2007 (Eurostat 2010). In Romania 1.6 million farm holdings are less than 1 hectare and 1.1 million are less than 3 Ha, 290,000 are in the range of 10-20 Ha and 255 are more than 2,000 Ha (the latter are cultivating 11% of the utilized agricultural area (Ministry of Agriculture & Development, 2007).

Taking into account the agricultural structure in these three Balkan countries, the need for the small producers to be organized in modern market orientated producer group organizations in order to provide options for small producers to organise and improve their livelihoods and to achieve their development and prosperity is imperative.

4. STRATEGIC ISSUES

4.1 Market orientation and the strategic attributes in small agrifood POs

Market orientation (MO) conceptualization has focused on two general perspectives, the behavioural and the cultural. It mainly consists of three behavioural components which are: customer orientation, competitor orientation and interfunctional coordination which have been proven to enhance organization performance.

The agricultural globalization generated the need for structural and organizational adjustments of small agribusiness co-operative organizations with the aim to accommodate the end-user demand. The extent to which cooperatives rely on their definitional attributes results in different organizational forms. These forms can range from traditional ones (i.e., free, open, and voluntary association based on the principle of equality) to neo-institutional reengineered models (Kalogeras *et al.,* 2007).

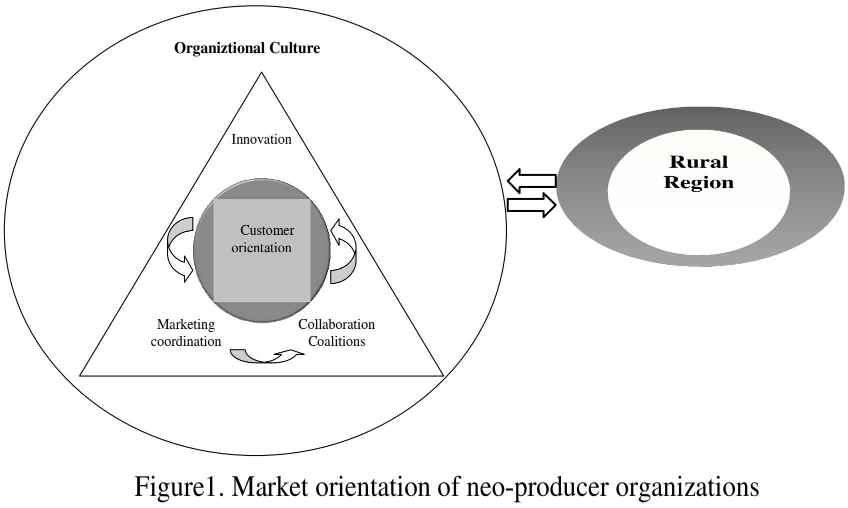

Figure1. Market orientation of neo-producer organizations

A MO concept which entails a focus on consumers, competitors, and broader market conditions, is a prerequisite to the neo-institutional model for the agrifood producer organizations (POs) to facilitate the response to new market challenges. In an attempt to reconceptualise the meaning of "market oriented neo-producer organizations" (figure 1) either from the approach of " market- driven neo-producer organizations" or from the approach of "the market-driving neo-producer organizations" and to understand the process involved in creating and implementing a MO concept, the small agrifood POs have to put an emphasis on the industry specific key strategic attributes as Organizational culture, Innovation, customer orientation, marketing co-ordination, coalitions and collaborations.

4.1.1 Organizational culture

Organizational culture has been defined by Deshpande and Webster (1989) as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with the norms for behaviour in the organization". Being a member-based organisation entails a number of challenges. It has been found that, in organizations that involve membership, members' attitudes and perceptions impact on the performance of such organizations. The members may behave in ways that help the group to function more effectively or they may behave with apathy towards their organizations and organizational activities (Bhuyan, 2000; Tyler & Blader, 2001). In an attempt to be reorganized into neo-institutional models, POs have to change their organizational culture and attitudes into market oriented ways of thinking and acting (Manzano, J.A. et al, 2005).

Although in each Balkan country, at national or even regional level, cultures present important differences in unique characteristics for historical, political, economical or geophysical reasons, a shared neo- cooperative culture has to be established. Since, as it has been argued by Hofstede (1993), the corporate or organizational culture is a different phenomenon from the national culture residing mainly in the visible practices of the organization, organizational culture may be consciously changed.

Cooperatives must develop an informed membership that understands and supports the operating policies, financing methods, and objectives of the neo-Producer Organizations, which will result in having actually active members. Also, cooperatives should pursue to develop a better stakeholders and public understanding of their objectives and benefits to rural communities, consumers and farmer-members (USADA, 1988).

4.1.2 Innovation

Several studies in marketing journals put an emphasis on the role of innovation in facilitating the MO – performance and suggest that a firm's innovativeness is associated with superior performance, because it is the best way to gain a competitive edge and renew competitive advantages. Specific attention has been given to technical and administrative innovation, product innovation and radical or incremental innovation (Schindehutte, M., Michael H. Morris, M.H. and Kocak, A., 2008). Oslo Manual identifies innovation as "a new significant improved product (good or service), or process, a new marketing method, or a new organizational method, business practices, workplace organization or external relations" (OECD, and Eurostat 2005, p.46).

Organization's innovativeness refers to the ability of an organization to create and implement new ideas, products, and processes, as well as to the new product performance and represents the degree to which the firm generates new, timely and creative new product or service introductions, based on its accumulated knowledge of customers, competitors and technologies (Deshpande et al, 1993; Kirca, A.H., Jayachandran, S., and Bearden, W.O., 2005).

Under this perspective the keys to success for the neo-Producer Organizations are product, process, marketing and organizational innovations. Small scale producers organizations which are generally lacking in knowledge, information and recourses, can enhance their strategic and organizational skills, by focusing on communication, effective channels of information, skills transmission and the accumulation of knowledge, within organisations and between them (OECD and Eurostat, 2005).

4.1.3 Customer orientation

Customer orientation is a core element of the traditional marketing concept that puts the customer in the centre of the firm's thinking about strategy and operations since Drucker argued that “there is only one valid definition of business purpose: to create a customer” (Drucker, 1954 p.39), and it is one of the main components in the MO construct, encompassing customer analysis and customer responsiveness (Narver and Slater, 1990; Kohli and Jaworski, 1990). In the context of the agrifood sector the concept of market oriented farming industry implies an understanding of customers’ current and changing food needs and contemporary consumer demands by the farmers in order to be able to create superior value for them.

In the Balkan countries where the fragmented agriculture is a structural weakness, it is very difficult if not impossible for the small farmers to meet the emerging needs of the globalized markets. The indirect relationship with customers in most cases, due to intervention of the agents in the chain, makes it more difficult. The role of the “market oriented neo-producer organizations” is to focus on the ability to understand and respond innovatively to existing and emerging consumer demands.

4.1.4 Marketing co-ordination

Haeckel (1997) views the marketing as the function of business and not simply as a function of business and its key contribution is to serve as a link between the customer and various processes within the organization (Day 1994). Market orientation can be viewed as a process for defining markets, quantifying the needs of different customer groups and developing and communicating value propositions both externally to customers and internally to all those that are responsible for delivering them (McDonald and Wilson, 2004). Regarding the Producer organizations, in order to transform from the traditional ones to neo-producer organizations, a new entrepreneurial orientation is required to stimulate market orientation (Matsuno, Mentzer and Ozsomer, 2002). Marketing coordination will constitute the platform for the implementation of their market oriented innovative strategies. Acting as market institutions they need to develop effective marketing coordination within (members, organization’s departments) and beyond their boundaries (among all the chain members e.g. traders, retailers, agribusinesses, food processing companies) in order to coordinate all the involved parties’ efforts towards what customers value the most. This will create their competitive advantages.

4.1.5 Coalitions and collaborations

The producer Organizations need to have marketing information data bases in order to collect, assess and distribute the information producers need to improve their produce and meet the current and changing needs of their customers. This need can be better served by the development of cooperation agencies.

Relying on dynamic multi-agent networks, “market oriented neo-producer organizations” can accumulate knowledge by linking their members to new ideas, resources, incentives and opportunities from beyond their rural regions (Berdegué, 2008). By focusing on collaborative networking processes that aim at transferring knowledge they can encourage innovation and improve their market position. F The rural regions in the study area need to establish a collaborative environment where the producer groups and organizations can joint efforts with regional, national or international organizations and institutions to produce and deliver value to members, customers, suppliers, industry associations and generally in the community.

4.2 Market oriented small agrifood Pos and Regional Development

It is generally agreed by many scholars that agriculture is essential for reducing poverty since the growth of a dynamic agriculture and agro-industry benefits the rural regions by enhancing labour productivity and increasing wages (Timmer, 2008). In the sub-regions of the study area producer organizations are "hidden" forces for local development. The establishment of market oriented small agrifood POs can result in productivity and quality of agricultural production, farm returns, economic stability for rural households, food security, innovation and knowledge transfer between complementary sectors at the regional level, all of which result in regional development and cohesion.

The relation among the market oriented Producer Organizations and the regional community is interacted. A market oriented regional community influences the creation and operation of modern producer organizations and inversely the market oriented producer organizations can be instrumental in regional development (figure 1). Socio economic development is increasingly related to the capacity of regional economies to change and innovate (Commission, 2009). In this context regions as social partners can play an important role. Market oriented regions can become the primary level units where knowledge is transferred, investments in research and innovation are allocated, new regulatory frameworks are built to encourage industry and investments, by spending above the average for education and by investing in eco-innovation and socio-innovation.

CONCLUSION

Although the contribution of agriculture to the country's main macroeconomic indicators is constantly declining during the last decades, it still plays a vital role in the Balkans economy, society, and culture. In the Balkan countries within the EU the role of market oriented producer Organizations is crucial and can be seen as key driver for growth for their rural regions.

Acting collectively from their production and processing, to distribution and storage, enables most of the small scale producers to produce what the customers' want, when they want it, at a price they can afford. By adopting a marketing oriented philosophy and by focusing on key components of the market orientation concept - such as, organizational culture, innovation, customer orientation, marketing co-ordination, coalitions and collaborations, producer organizations can increase production of safe and healthy food and make it available at lower prices than ever before. Through their economic activity the new, market oriented model of Producers' Organizations could be a powerful tool for the regional development. By offering increased economic traffic, employment opportunities, support for essential community structures, and potential declines in out migration (Madane, 2002; Gordon, 2004) neo- producer organizations can be used in contributing to both the economic and social needs of the region. On the other hand market oriented Regions can be a spatial platform for innovative entrepreneurship. Thus the "market oriented neo-producer organizations" are critical for sustainable agriculture development in Balkan agricultural regions and market orientation is a core element for promoting regional development and sustainable rural livelihoods.

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