Actual changes in the sugar cane chain: challenges and directions for Growers associations

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Abstract

Brazil is a country moved by agribusiness, being among the leading suppliers of many products in the world such as sugar, orange juice, beef, soybeans, poultry meat and others. This assertion is evidenced by the numbers of its trade balance. In 2012 the Brazilian trade balance had a surplus of $ 19.5 billion. This amount includes all participating industries of the national economy, however, when is considered just the trade balance of Brazilian agribusiness, the surplus was about $ 80 billion in the same year, which makes clear the high importance of agribusiness in the Brazilian economy (BRASIL, 2013). The sugar cane industry specifically, is currently experiencing a period where production costs have risen and the growers income as well as sugar millers income have decreased, due to the depressed prices of ethanol and the volatile price of sugar as usual, coming to pressure the sugar cane chain as a whole. Considering sugar cane production, there are different ways how sugar cane is produced, being own production from sugar cane mills (on their own lands or rented lands) normally within large areas and and the production from independent sugar growers of varios sizes and technical levels. Particularly, the independent sugarcane growers, with less scale power, have suffered from this economic context and have tried as a solution to improve his results, a better cost management, either through better negotiations or better crop management, and along with these efforts, by increasing his productivity. Concomitantly, one may suggest that the associativism (a collective action among sugar cane growers) must be a way to solve this set of problems since the growers groups gain strength for better negotiations, scale to reduce costs and share techniques that provide increased productivity (CONEJERO, 2011; OSLON, 1999). The purpose of this article was to discuss how collective organizations have been affected by changes occurring in the political, economic and social environments and how they could position themselves to face such changes, strengthening the association role of maintaining profitably the sugar cane grower within the sugar cane chain. In this article was performed a discussion of the main issues that the Brazilian sugar cane chain is facing and how growers organizations can help the independent grower to maintain its activity. The results show actions and directions that a grower association may take considering its internal and external analyzes.

Keywords: sugarcane; Brazil, collective actions, associativism;
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Executive Summary

Despite the magnitude of the agricultural industry in Brazil and its big participation in the country numbers, this is still an industry that has a lot to be improved. Growers face a wide range of problems such as the low margins practiced, the high costs that run into logistical systems, high tax rates, the lack of infrastructure, among other challenges.

The sugar cane chain specifically, is currently experiencing a period where production costs have risen and income decreased so that the margins are tightening, coming to pressure from ag input suppliers to sugar millers, being not different to independent sugar cane growers.

Other factors have also contributed to several changes throughout the industry: industrial concentration as a result of the debt and closing sugar cane mill plants in recent years (from 2008 until 2013), a reduced number of sugar cane buyers (sugar cane mills); the prohibition of sugarcane burning before harvesting imposed by law, and consequently leading to mechanized harvesting, that demands scale to maintain growers’ competitiveness; and the new labor and environmental laws, that lead to new investment and changes in the industry to adapt to environmental law.

In this complex context we have the role of the independent sugarcane growers, which have sought as a solution to their activity, a reduction of production costs, either through better input negotiations or by trying to maximizing their productivity.

The associativism, a collective horizontal association, must be a way to help solving this set of problems since the growers groups gain strength for better negotiations, scale to reduce costs and share techniques that may provide increased productivity (CONEJERO, 2011; OSLON, 1999). It is essential that associations be prepared to face the changes in the industry and to support the growers in their activities.

The purpose of this article is to discuss how collective organizations (such as the sugar cane growers association) have been affected by changes occurring in the political, economic and social environments and how they could position themselves to face these changes for maintaining the producer in the sugar cane activity and beyond that increase their profitability and sustainability. In this article, it is presented a discussion of the main issues that the Brazilian sugar cane chain is facing and how growers organizations can help the producer to maintain its activity.

In order to achieve this objective, a case study was performed with a sugarcane growers association in São Paulo state called Socicana. The 1332 members of this association provide together about 6.5 million tons of sugarcane in the last harvest period of 2013/14 (SOCICANA 2013).

The results show actions and directions that a producer association should take considering its internal and external analyzes either suggested by the associated growers and directors or suggested by the authors when analysing the related theory.
Actual changes in the sugar cane chain: challenges and directions for growers associations

Introduction

The global food industry and agribusiness are inserted in a very dynamic environment of constant changes (NEVES, 2008).

Brazil is a country moved by agribusiness, being among the leading suppliers of these products in the world. This assertion is evidenced by the numbers of its trade balance. In 2012 the Brazilian trade balance had a surplus of $ 19.5 billion. This amount includes all participating industries of the national economy, however, when is consider just the trade balance of Brazilian agribusiness, the surplus was about $ 80 billion in the same year, which makes clear the high Brazilian economic dependence on agribusiness (BRASIL, 2013).

Despite the magnitude of the agricultural industry in Brazil and its big participation in the country numbers, this is still a industry that has a lot to be improved. Growers face a wide range of problems such as the low margins practiced, the high costs that run into logistical systems, high tax rates, the lack of infrastructure, among other challenges.

The sugar cane chain specifically, is currently experiencing a period where production costs have risen and income decreased so that the margins are tightening, coming to pressure from ag input suppliers to sugar millers, being not different to independent sugar cane growers.

Other factors have also contributed to several changes throughout the industry: industrial concentration as a result of the debt and closing sugar cane mill plants in recent years (from 2008 until 2013), a reduced number of sugar cane buyers (sugar cane mills); the prohibition of sugarcane burning before harvesting imposed by law, and consequently leading to mechanized harvesting, that demands scale to maintain growers` competitiveness; and the new labor and environmental laws, that lead to new investment and changes in the industry to adapt to environmental law.

In the agricultural area, the lack of resources is bringing consequences as a reduction in the sugarcane fields renewal and reduced investments in inputs. In addition, the current low profitability experienced in the industry also inhibits investment in irrigation systems, directly affecting productivity gains.

In the industrial area, the debt issue is encouraging the production premature commercialization and reducing the required maintenance execution. Thus, the industrial park starts an aging process that will result in reduced production and productivity.

In this complex context we have the role of the independent sugarcane growers, which have sought as a solution to their activity, a reduction of production costs, either through better input negotiations or by trying to maximizing their productivity.

The associativism, a collective horizontal association, must be a way to help solving this set of problems since the growers groups gain strength for better negotiations, scale to reduce costs and share techniques that may provide increased productivity (CONEJERO, 2011; OSLON, 1999). It is
essential that associations be prepared to face the changes in the industry and to support the growers in their activities.

**Objectives and Procedures**

The purpose of this article is to discuss how collective horizontal organizations are affected by changes occurring in the political, economic and social environments and how they could position themselves to face such changes and maintain the producer in the sugar cane activity. In this article, a discussion of the main issues that the Brazilian industry of sugar cane is facing and how growers organizations can help the producer to maintain its activity.

To achieve the objectives proposed, a study case was performed with a sugarcane growers association in São Paulo state called Socicana. The 1332 members of this association provided together about 6.5 million tons of sugarcane in the last harvest period (SOCICANA 2013).

As Figure 1 shows, the method included two steps, which helped in the understanding of the industry and guidelines to follow, both in view of the growers and the representatives of processing industries in the region (mills).

**Stage 1**

**UNDERSTANDING**
- Internal Analysis: Strengths and improvement points in the association: Structure, governance, RH and others.
- External Analysis:
  - Benchmarking: Search for best practices in national and international associations.
  - Analysis of threats and opportunities

1^st WORKSHOP (vision)
SWOT analysis and definition of strategic directions

**Stage 2**

**STRATEGIC DIRECTIONS**
Definition of potential projects for the association

2^st WORKSHOP:
Prioritization and review of strategic projects

**Figure 1: Method used in conducting the case studies**

Source: Developed by the authors

Step 1, of “understanding”, featured two sub-steps: internal and external analysis.

**Internal Analysis**

Interviews were conducted with 11 growers that are part of the association's board (personally) and 40 associate growers (by phone or online questionnaire) resulting in 51 interviews. At this stage, respondents had the opportunity to point out the current situation of the association, highlighting the strong points and areas that can be improved, concerning the scope and efficiency of actions undertaken by Socicana.
External Analysis

Was conducted by interviews too, when 11 board members were interviewed, 7 associations were studied and in order to provide a benchmark Socicana understand where and how it could improve and all the 3 sugar mills in the region, where the associated growers deliver their sugarcane. The objectives of each group of interviews in this sub-step are pointed in the Table 1 below.

<table>
<thead>
<tr>
<th>Group of interviews</th>
<th>Main objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members of Socicana</td>
<td>Map the positive and negative trends that the chain is facing as well as the impacts at Socicana</td>
</tr>
<tr>
<td>Other Horizontal collective organizations</td>
<td>Benchmarking focusing organizational structure, offered services and communication actions</td>
</tr>
<tr>
<td>Mills in the region</td>
<td>Map the possible points of synergy between mills and association and how they can be used for the benefit of the chain concerning sugar cane producer and the sugar mill.</td>
</tr>
</tbody>
</table>

Table 1: Objectives of each interviews group
Source: Developed by the authors

At the end of the first stage a workshop with the association board members and some Association employees was performed with the objective to consolidate the information gathered and to arrange it in order to allow better visualization of the current industry scenario.

The second stage involved the definition of strategic directions that the association should take in the coming years.

From all the information collected and organized in the previous step, 8 areas were prioritized to be worked in order for the association and its members face the moment that the industry is living.

Following, the article presents the theoretical background used for conducting this process with Socicana.

Theoretical Framework

Strictly coordinated agribusiness systems (SAGs)

Agribusiness systems concept was initially proposed by Davis and Goldberg (1957) as the union of all the actors involved in the product production, processing and distribution in a chain.

It can be interpreted as a junction of the responsible segments for the activities performed before, inside and after farms, also including facilitating agents. Some years later, Morvan (1985) introduced another aspect in the concept analysis, adding to the analysis the transformations occurring in each link and between the links to produce the final product of a chain. To Morvan (1985) chains are systems that can ensure their own transformations. This new mode of analysis, provided an opportunity for systems to be described more clearly contributing, among other things, for the analysis of sequential interactions between organizations and the delineation of collective strategies.

Despite the applicability of the agribusiness concept related to agribusiness systems, it still had a very descriptive form, not considering ways to formulate models and hypothesis tests (ZYLBERSZTAJN, 1995).
Zylbersztajn (1995) added the theoretical support of economics transaction cost in the theories proposed by Davis, Goldberg and Morvan, proposing that agribusiness systems (SAG) have two variables to be highlighted: the modes of governance derived from transactions and the ones that come from the organizational and institutional environment. Zylbersztajn (1995) based his contributions mostly derived from new institutional economics and transaction cost economics from authors as Coase and Oliver Williamson.

Figure 1 below represents the SAGs main links and its transactions (ZYLBERSTAJN, 1995).

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**INSTITUTIONAL ENVIRONMENT**: Cultures, traditions, educations, behaviour.

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**ORGANIZATIONAL ENVIRONMENT**: Associations, informations, research, finances, cooperatives

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T = Transactions

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Source: Zylbersztajn (1995)

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A SAG may be more or less efficiently coordinated, which means that it may work better or worse, trying to meet its goal of providing food to the final consumer in a expected quality and price. Several companies should interact since the production, passing by processing and distribution, and this interaction can be more or less efficient, confrontational and even profitable.

Transactions between agents in a SAG may occur with different mechanisms such as price (or markets), contracts, and finally the vertical integration when contractual arrangements are all defined within the limits of the company and the company is responsible for the entire process, since the origination for sale until the final consumer (COASE, 1991; WILLIAMSON, 1985, ZYLBERSTAJN, 1995).

Asset specificity level is related to specific investments that a company realizes that put it at a disadvantage regarding the relocation of this investment in a situation of contract break. The presence of such investments in a business relationship, coupled with the uncertainty of relationships generate high transaction costs. These costs appear before the transaction occurring as the preparation of lengthy and complex contracts, or even during the transaction with modifications of such contracts or breaks, and finally, after the transaction with renegotiations and even potential legal issues (AZEVEDO, 1996).

These transaction costs can lead the company to seek ways of governance that allow it to minimize this risk. Typically, companies go toward more rigid contracts or even vertical integration in the presence of high transaction costs (FARINA et al. 1997).

The concept of SAG coordination focuses on improving relationships between organizations both between agents of the same link (horizontal coordination), as between agents of different links, called vertical coordination. This means, for example, that growers belonging to the same industry of the sugarcane chain can be better coordinated for collective gains in cooperatives or associations as an example of horizontal coordination. Therefore need to seek a governance model that minimizes transaction costs between them. Growers and industrial units may establish pricing mechanisms that reduce conflicts and facilitate business as an vertical coordination example.
SAGs coordination is directly related to the competitiveness of the system, and, differently from how it is treated in neoclassical economics, where price is the coordinator agent, in the New Institutional Economics it goes beyond: most time, prices are not able to coordinate production, having institutions and organizations significant impact on the competitiveness of the system as a whole (COASE, 1988; ZYLBERSZTAJN; FILHO, 1998).

According Zylbersztajn (1995) the agribusiness systems coordination analysis has relevance for understanding the SAGs, due to the facts: (1) the coordination system exclusively via prices is not enough; (2) there are costs for the establishment of institutions that coordinate the process, (3) there is great instability in agricultural income in the various markets, being necessary distributional concerns.

In this sense the analysis of sugarcane growers associations interests should consider its structure as an agglomeration inserted in a SAG (Agroindustrial System) where agents seek vertical and horizontal coordination.

**Private interest associations (PIAs)**

Before talking about PIAs, the collective actions should be understood. They can be treated as the result of organizations or persons acting jointly in the pursuit of creating competitive advantages for the group. Because of the complexity of factors involved in collective processes, collective action by small and homogeneous groups are more common than those charged by larger groups (CONEJERO, 2011). Companies or individuals choose to join into a single entity because they have the perception that achieving the desired benefits is easier or even possible only if treated collectively (OSLON, 1999). The PIAs fit into the scenario presented up to this point.

Private interest associations in the Brazilian agribusiness industry gained greater prominence in the 90s, where, with the economic deregulation process in the country, they acquired part of the responsibility to coordinate and enhance the competitiveness of the productive systems and agribusiness (ZYLBERSZTAJN; FILHO, 1998).

The main function of an AIP is the production of collective goods, whether through political action or the services provision to its members. Individualized services, although secondary, may also exist in these organizations. These incentives evaluation and the participate cost in a PIA is the means that current and future members use to take the decision to remain / enter or disconnect of the associations This theory is valid for those voluntary associations since the mandatory contribution removes the associated power of decision to participate or not in the organization. In this case, the associated demand may be secondary (NASSAR; ZYLBERSZTAJN, 2004).

In PIAs where the membership is voluntary, the organizational challenge is to maintain the provision of appropriate services and benefits that fits with the demands and expectations of the associated, in which case, should be treated as customers (NASSAR; ZYLBERSZTAJN, 2004).

Zylbersztajn and Nassar (2004) classify the PIAs about its size and homogeneity of its members, reaching four classes that follow:

- **Small and homogeneous groups**: generally, the associations present in this group have no great efforts to attract new members by having broad representation in the market. Its associates are typically large companies that do not seek very specific services in the association. The communication cost is low and investment in events and courses are almost zero. These
associations often generate little externality for society, being focused on the interests of its members.

- **Small and heterogeneous groups**: Follow the characteristics of the associations entered in the group described above but with the difference that also coordinate actions of interest to not associated groups. This is because, by representing different industries, the interests are more generalized. This type of association generates more externality for society than the first one.

- **Large and heterogeneous groups**: Offering selective services to attract members, have differentiated communication service to include all members and, more often, have different ways of delivering services, providing services included in the monthly fee and paid services. These associations aggregate associates with different objectives, as some seek to provide services for their business while others, usually the bigger ones, seek for the class representation. These associations are good generators of externalities to society and should be constantly focused on maintaining communication with their varied types of associates.

- **Large and homogeneous groups**: are associations with very representative members of a industry or class. Common needs are identified and collective services related are offered. The homogeneity facilitates management since the projections are common.

**Private interests associations challenges**

Attending collective interests becomes a challenge when several agents are involved and have individual characteristics that affect how the product or service is demanded. As the PIAs must meet collective interests, many problems are found as (ZYLBERSZTAJN, 2002):

**Associated dual role**: in a PIA, associated often assume roles that goes beyond their particular production. They are part of the association board and have the managers’ decision power. This activity is often unpaid, being characterized as voluntary. This practice can bring harm to the association since the organization size and complexity tend to increase over time. What was previously a management success, can enter into a process of crisis. The changing cost to pass from a members’s management to a management done by a contracted professional is high either because of organizational learning, or even for political reasons (ZYLBERSZTAJN, 2002).

**Horizon problems**: since the participation in a PIA is not something that has market value or that can be valued and sold in the future, members tend to prefer actions that are performed in short-term, with quickly and visible results. In this sense, the associations need to develop mechanisms that justify and enable long-term actions (ZYLBERSZTAJN, 2002).

**Free-rider problem**: occurs when the benefits and services provided by an AIP are used for an opportunistic non-associated. In the sugarcane growers association for example, the sugarcane pricing system and the audit performed by the association at sugar mills is elaborated and controlled by the associations, but non-members also enjoy the same system. Often the existence of 'free riders' is something uncontrollable and unavoidable But associations must seek ways to not discourage the participation of members, like offering exclusive services for example. (ZYLBERSZTAJN, 2002).
**Portfolio problem:** is a consequence of the 'horizon problem' in which the associations fail to support investment in new solutions to provide services for its members that are enduring and long-term (ZYLBERSZTAJN, 2002).

**Control Problem:** occurs when various organization activities and responsibilities are accumulated in a single person. While the organization is small and somewhat complex, the operation is satisfactory, but, with its increasing complexity, it can become inefficient. In these cases, corporate governance should be reviewed (ZYLBERSZTAJN, 2002).

**Influence costs:** are the costs of managing and making decisions made by the most influential people in the pool and not the most competent. Personal income is a strong motivator for the occurrence of this type of situation (ZYLBERSZTAJN, 2002).

**Private interests associations provided services**

As discussed so far, the PIAs are organizations generated to meet a group need through the satisfaction of collective interests. In this aspect, there is a trend towards collective goods that the associations can provide. Most AIPs work primarily on two fronts: industry interest actions (interaction with the State) and services. Other actions such as the information provision, events organization and communication with other associates should also be taken into consideration (NASSAR; ZYLBERSZTAJN, 2004).

Regarding the industry interest actions, the PIAs serve as interlocutors with the government, other organizations and the general community, seeking to organize, integrate and acquire competitive advantages for the class that represents in the industry. Its role is also key to pressure the institutional environment and perform lobbying activities. This role played by associations is a longer process and non-associated, known as 'free riders', can benefit largely from them (ZYLBERSZTAJN; FILHO 1998). The association political relationship and dialogue with the State may be much to discuss general issues such as tax reform, for example, how to deal with industry specific issues (NASSAR; ZYLBERSZTAJN, 2004).

In relation to the services provision, several solutions can be delivered to members. The provision of some services can also be transferred to other organizations that are close to the PIAs in question (NASSAR; ZYLBERSZTAJN, 2004). An example is cooperatives that share management and associates/partners with associations. In this case there is a consensus between the two sides of the services division, and the members should be aware of this division and in agreement too. Otherwise there may be a perception that the association is not fulfilling its role.

The services provided by PIAs can be included in its monthly fee or charged generally with lower prices due to the group characteristic (NASSAR; ZYLBERSZTAJN, 2004).

Among the actions provided by a PIA, Zylbersztajn and Filho (1998) point out that three classes can be highlighted. It is important for the associations to have a clear vision about it actions and which class they fit, in order to estimate the degree of conflict that must be managed:
- **Actions that benefit all actors**: do not bring implications because there are no conflicts to be managed.

- **Actions that benefit part of the group but do not interfere with other**: in the first case conflicts are minimal and easy to administer.

- **Actions that benefit part of the group harming another part**: in this case conflicts are generated and need clearing systems to be solved.

Combining the benefits that an association can provide to their members depend on the association type, its scope and its associated profile. Exemplifying this difference, Nassar and Zylbersztajn (2004) points out those homogeneous associations gets most successful actions in the provision of collective goods than heterogeneous.

**Social Capital - representativeness and legitimacy**

The theoretical approach on social capital and its territories illustrates that individuals do not act independently, their goals are not set in isolation and their behavior is not always strictly selfish. In this sense, social structures should be seen as resources, as a capital asset that individuals may have.

Coleman (1990) and Putnam (1993) state that social capital refers to “...features of social organization such as trust, norms and systems, which increase the society efficiency by facilitating coordinated actions”.

Bourdieu (1985; 2005) states that social capital describes situations in which individuals can use their participation in groups and networks for conventional economic benefits. Para Burt (2001), social capital is an asset jointly owned, involving partners in a relationship.

Fligstein (1999) suggests attention to strategic action in organizational fields, developing the ability to promote cooperation between actors in order to create, contest and reproduce interaction rules in favor of their interests.

In PIAs, social capital influence decision making between join or not, because it shows how the association is recognized in the middle that acts. Its legitimacy to represent the growers is strongly grounded in the recognition of its share capital.

An association that does not possess structured social capital, besides not attract members, have low representation in the middle that acts.

**Results and discussions**

Socicana is an AIP whose members are sugarcane growers. According to Zylbersztajn and Nassar (2004) classification, it can be considered a ‘large and homogeneous association’, since it has many associated with considerable representation together and they are all part of the same productive class. In this context, one aspect should be highlighted: despite being classified as a homogeneous association, its members profile is very varied because it includes growers of different sizes. The
small and large growers objectives in an association can be very different, even both dealing with the same type of production.

The results showed that the association is very effective in political representation and in lobby activities. Its managers (associates), have extensive knowledge about the industry and great influence on other public bodies. The association has relatively reputation in the industry, and their representativeness is satisfactory. Considering what was proposed by Bourdieu (1985), Bourdieu (2005) and Burt (2001), can be said that Socicana has a good social capital, bringing representation and economic benefits for its members. However, it could be identified that its governance structure and internal decision making somehow concentrated on certain types of growers and mostly on board member limit somehow its social capital, due to the fact that many interviewed growers didn’t feel themselves represented by the association. The results below somehow deteis its perception.

The presented results show the consolidation of each step described in the method previously.

Table 2 shows the consolidation of the association internal analysis, with its main strengths and weaknesses in the view of associated growers and executive board (who are also associated growers).

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members recognize that the there is availability of financial resources</td>
<td>Decision making is concentrated due to its organizational structure</td>
</tr>
<tr>
<td>Strong political representation</td>
<td>The association does not have a database, not having knowledge about its associated growers</td>
</tr>
<tr>
<td>The services offered are of good quality</td>
<td>The communication with the associated growers is inefficient causing unawareness of the parties and low benefit perception.</td>
</tr>
<tr>
<td>Board members very much aligned with the goals of the association</td>
<td>There is a lack of professionalism in the management of the association due to the fact that it is managed by members.</td>
</tr>
<tr>
<td></td>
<td>Although the services offered are of good quality, there are few services offered</td>
</tr>
<tr>
<td></td>
<td>Some associated growers have the perception that the association favors more the (mills)</td>
</tr>
<tr>
<td></td>
<td>The associated producer pays for the services of the organization without knowing that is paying for it (fees built into the price per ton of cane), as a result of poor communication efforts</td>
</tr>
</tbody>
</table>

Table 2: Consolidation of the association internal analysis

Source: Developed by the authors
It was noted that the association has great political representation, but its governance structure is not conducive to quick and effective management decision making. The autonomy is centered on the executive board, which is formed by volunteers. This kind of association challenge is highlighted by Zylbersztajn (2002) as the ‘associated dual role’ problem. With the association growth and the greater complexity involved in its activities, a new model of governance should be established. Thus, the switching cost is high because internal political issues are usually involved.

A non-professional management can delay the organization in many aspects as in its technological and services provision renovation (ZYLBERSZTAJN, 2002). Moreover, the concentration of decision-making power in a small group of associates may be a factor that contributes to the evasion of others. They pass not to feel ‘part of the group’.

Another point to be highlighted in this analysis is the poor relationship between association and its members, what generates an unawareness of services provided by the association and makes the associated producer seek solutions in the mills. On the other hand, mills perceive an opportunity to offer various services for growers developing important relationship with them to secure product origination. This fact increases the dependence on the mills and reduces the strength of the growers’ association. In another words, this fact causes the association fails to promote horizontal coordination aiming to join growers around a cause, and pass, indirectly, to encourage vertical coordination originating on mills. It’s clear that the horizontal and vertical coordination could happen more balanced and simultaneously developed.

In the past sugarcane growers associations had a system of compulsory membership, where farmers paid their fees deducted from the amount received per ton of cane (The fee is discouted by sugar mill at sugar cane payments to growers and the sugar mills transfers this consolidated see to the growers association). Nowadays, this rule was changed, making the association voluntary but with the same payment system. Socicana is a voluntary association but many members still believe that their participation is compulsory, not questioning the services offered by the organization and, consequently not contributing to the association improvement. The theory proposed by Nassar and Zylbersztajn (2004) shows that, once the member has the power to choose between participating or not in a group, he starts to evaluate the costs and benefits offered by the same, acting as an improvement agent. This should be a pressure to Socicana increase the services benefit perception by growers to stay in the market.

Despite the voluntary association brings benefit for the organization, it becomes a problem when individuals fail to join and start to enjoy their services as ‘free riders’ (ZYLBERSZTAJN, 2002; ZYLBERSZTAJN; FILHO 1998). In the sugarcane growers associations this is a problem that occurs frequently. non-members enjoy institutional and policy actions by associations and may seek additional services from the industrial units, that once again show themselves concerned in carrying out actions to ensure vertical integration and consequently reduced transaction costs.

Besides the internal analysis, it was also necessary to assess the external environment which the PIA is inserted to draw its directions.

Table 3 shows the analysis of the external environment that the association operates, addressing the major threats and opportunities that the industry of cane sugar is currently offering.
## Opportunities

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Possibility of production diversification in the region</td>
<td>7. Small and medium growers difficult survival in the activity (margins)</td>
</tr>
<tr>
<td>2. Sugarcane production is entering in a process of environmental certification</td>
<td>8. Agricultural production concentration</td>
</tr>
<tr>
<td>3. There is a development in the sugarcane varieties research and development segments.</td>
<td>9. Industry concentration</td>
</tr>
<tr>
<td>4. Strong environmental appeal of the industry, that has as the main feature offer a renewable product to market (ethanol)</td>
<td>10. Growers are highly dependent on the mills that perform several services on their property.</td>
</tr>
<tr>
<td>5. New way of planting sugar cane in eminence</td>
<td>11. The industry is facing a financial crisis due to reduced margins</td>
</tr>
<tr>
<td>6. New alternatives for destination of sugarcane as for chemical industry, energy, bioplastics, and anothers.</td>
<td>12. Lack of skilled manpower technical and managerial</td>
</tr>
<tr>
<td>7. Small and medium growers difficultly survival in the activity (margins)</td>
<td>13. Few initiatives of Family succession</td>
</tr>
<tr>
<td>8. Agricultural production concentration</td>
<td>14. Lack of associative culture</td>
</tr>
</tbody>
</table>

### Table 3: Analysis of the external environment that the association operates

**Source:** Developed by the authors

Based on this analysis, it is possible to draw a parallel between the threats and opportunities identified in Table 3 and the impacts of these for the association. Table 4 shows the impact of each observation in the external environment to sugarcane growers associations. Each impact is associated with its relative point identified in Table 3.

## Opportunities Impacts

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Association future activities scope definition: it will be a sugarcane grower association or a regional growers association? How the association will deal with the growers production profile changes?</td>
<td>7. Small and medium producers are those who are most in need of services and the association role to promote integration. The association is responsible for suggesting solutions to these producers.</td>
</tr>
<tr>
<td>2. Possibility of offering new services: How the association can address the environmental certification topic through services?</td>
<td>8. The producers association should develop mechanisms for the maintenance of small and medium farmers in business. Furthermore, the association should promote the integration of large producers with small and medium.</td>
</tr>
<tr>
<td>3. Currently, the associations are responsible for collecting the fees paid to developing new varieties companies. The associations have to have a deeper engagement with those organizations seeking viable solutions to their associated.</td>
<td>9. The relationship between associations and the mills is fundamental to maintain the competitiveness of the sugarcane growers, specially in a period where they are facing a industry concentration.</td>
</tr>
<tr>
<td>4. The association should seek to engage with</td>
<td>10. The growers association shall, in addition to</td>
</tr>
</tbody>
</table>

## Threats Impacts
other actors in the chain to perform industry institutional marketing. | maintaining a good relationship with the industrial units, seek a balance in the services provision in order to not have a growers evasion supported by mills.

5. The information demand of planting sugarcane new ways will increase and associations must be prepared to meet this demand. | 11. The current financial crisis and reduced margins in the industry can be tackled with joint actions that associations must lead.

6. In the members rights protection context, associations must to press the competent bodies to adequate the sugarcane remuneration with all its derivatives products and no just with ethanol and sugar. | 12. Need for training and qualification of skilled manpower. Services that associations can offer to their members.

13. Awareness among the youth is critical to the activity future continuity. The association has the ability to promote this awareness through lectures, meetings and trainings.

14. If the associative culture is not improved, the sector will suffer the consequences of the lack of coordination. The communication between the association and its members should be improved to achieve this goal.

**Table 4: Impacts of the external environment for associations**

*Source: Developed by the authors*

According to the findings, was noted that the Brazilian sugar cane industry is passing through a crisis period, where the remuneration for the products is not consistent with the costs of the industry. This reality provides the concentration of both growers and industrial units which need scale to enable their business.

Another problems that can be highlighted are cultural problems that is occurring not only in sugar cane industry but in the brazilian agribusiness as a whole. Among them we can mention the reduction of succession initiatives in the field and the poor associative culture which complicates the implementation of joint actions to strengthen and provide survival to small and medium growers.

According to the association internal and external analysis, and the impacts of this analysis for the associations, were traced strategic actions that seek to minimize the weaknesses and develop solutions to address the external environment and increase the industry's competitiveness.

Table 5 indicates the strategic actions to be performed for the association and its member growers to maintain their competitiveness in the industry.
STRATEGIC ACTIONS

<table>
<thead>
<tr>
<th>Strategic Action</th>
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</thead>
<tbody>
<tr>
<td>Restructure the governance of the association</td>
</tr>
<tr>
<td>Develop and disseminate new technologies related to sugarcane varieties</td>
</tr>
<tr>
<td>Seek and provide technical services to assist growers in their activity</td>
</tr>
<tr>
<td>Approximate association/growers associated through communication actions</td>
</tr>
<tr>
<td>Create a database that contains the characteristics of all associated growers</td>
</tr>
<tr>
<td>and be used to direct services and expand communication between the parties</td>
</tr>
<tr>
<td>Encourage the formation of producer groups that perform joint actions in order</td>
</tr>
<tr>
<td>to facilitate their activity</td>
</tr>
<tr>
<td>Strengthen education in the field through technical and managerial training</td>
</tr>
<tr>
<td>to prepare the producer to face adversity in the industry</td>
</tr>
<tr>
<td>Search and constantly develop new business for the association and growers in</td>
</tr>
<tr>
<td>the pursuit to diversify and enable the continuation of that farmer in the</td>
</tr>
<tr>
<td>field</td>
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</tbody>
</table>

**Table 5: Strategic actions to maintain the industry competitiveness**

Source: Developed by the authors

The association governance restructuring come to address two of the problems punctuated by Zylbersztajn (2002): the problem of associated dual roles and control problem. With the governance organization and management professionalization, the trend is that the association has a more active role especially in terms of relationships with growers and development of new services. The governance restructuring will also facilitate the development of other strategic actions punctuated, since the industries will be better arranged to act. With professional management, is easier to bring distant associates near to the group.

Following this reasoning, another key action is to develop closer relations between association and associate. Like punctuated by Nassar and Zylbersztajn (2004), it is very important that members are aware of the benefits that membership offers to take his decision to stay and support the association.

**Conclusions**

The present study showed, through a case study, the actual sugarcane industry situation in Brazil and how a PIA is positioned and seeks improvements to the activity of the farmer in this scenario.

Performing the diagnosis of a industry, the work provides support and tools for decision making not only in this agribusiness industry, since many characteristics are shared among other industries too.

The resulting strategic directions clearly indicate which are the lines of action to be followed in the present moment in order to seek the increased competitiveness of Brazilian agribusiness and consequently fulfill its role of providing food for the world.
References


