

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

MARCOS FAVA NEVES

*Professor, School of Economics and Business (FEARP) University of São Paulo  
Bloco C, sl 64. São Paulo, Ribeirão Preto, 14.040-900, Brazil.  
mfaneves@usp.br / 55 16 3456-5555*

LUCIANO THOMÉ E CASTRO

*Professor, School of Economics and Business (FEARP) University of São Paulo  
Bloco C, sl 13. São Paulo, Ribeirão Preto, 14.040-900, Brazil.  
[ltcastro@usp.br](mailto:ltcastro@usp.br) / 55 16 3456-5555*

TÁSSIA GERBASI

*University of São Paulo  
FEA-RP - School of Economics, Business and Accounting of Ribeirão Preto  
Business Department  
Researcher, Markestrat (Marketing & Strategy Projects and Research Center).  
R. Maestro I. Stabile, 520 - Alto da Boa Vista. São Paulo, Ribeirão Preto, 14.020-640, Brazil.  
tgerbasi@markestrat.org / 55 16 3456-5555*

CARLA MARTONI GOMES

*University of São Paulo  
FEA-RP - School of Economics, Business and Accounting of Ribeirão Preto  
Business Department  
Researcher, Markestrat (Marketing & Strategy Projects and Research Center).  
R. Maestro I. Stabile, 520 - Alto da Boa Vista. São Paulo, Ribeirão Preto, 14.020-640, Brazil.  
[carla@markestrat.org](mailto:carla@markestrat.org) / 55 16 3456-5555*

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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 áreas and and the production from independent sugar growers of vários 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 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 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 analyzing the related theory.

## **Actual changes in the sugar cane chain: challenges and directions for growers associations**

43

### **Introduction**

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

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48 the world. This assertion is evidenced by the numbers of its trade balance. In 2012 the Brazilian  
49 trade balance had a surplus of \$ 19.5 billion. This amount includes all participating industries of the  
50 national economy, however, when is consider just the trade balance of Brazilian agribusiness, the  
51 surplus was about \$ 80 billion in the same year, which makes clear the high Brazilian economic  
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54 numbers, this is still a industry that has a lot to be improved. Growers face a wide range of  
55 problems such as the low margins practiced, the high costs that run into logistical systems, high tax  
56 rates, the lack of infrastructure, among other challenges.

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

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

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

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

76 The associativism, a collective horizontal association, must be a way to help solving this set of  
77 problems since the growers groups gain strength for better negotiations, scale to reduce costs and  
78 share techniques that may provide increased productivity (CONEJERO, 2011; OSLON, 1999). It is

79 essential that associations be prepared to face the changes in the industry and to support the growers  
80 in their activities.

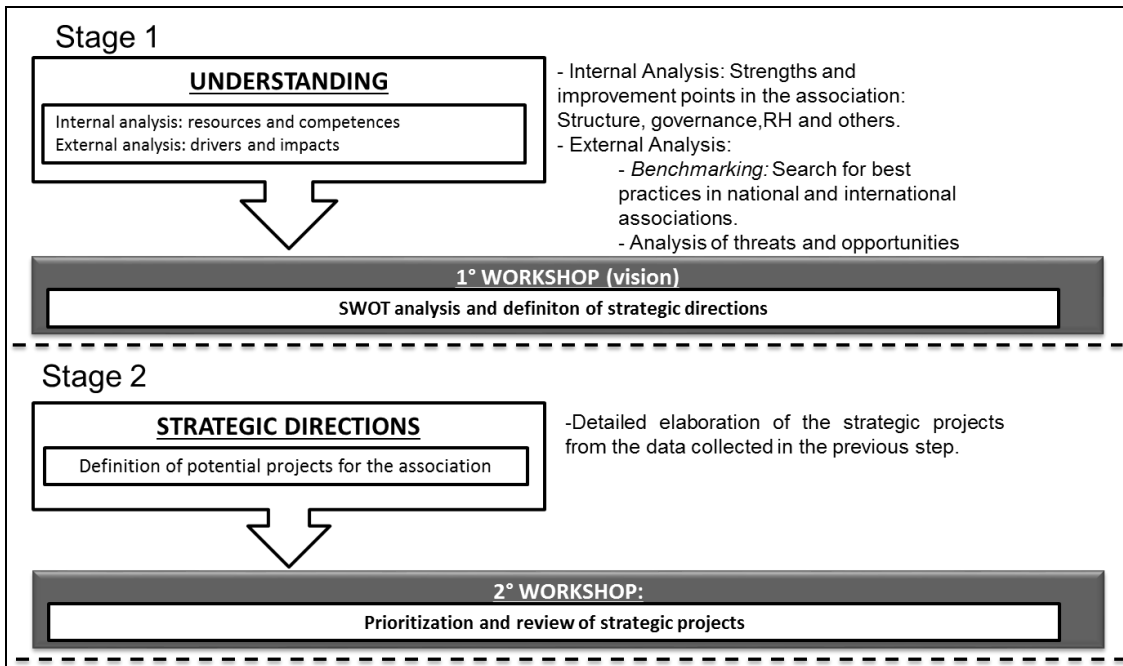
## 81 Objectives and Procedures

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

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

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

93



94

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

96 **Source: Developed by the authors**

97

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

### 99 Internal Analysis

100 Interviews were conducted with 11 growers that are part of the association's board (personally) and  
101 40 associate growers (by phone or online questionnaire) resulting in 51 interviews. At this stage,  
102 respondents had the opportunity to point out the current situation of the association, highlighting the  
103 strong points and areas that can be improved, concerning the scope and efficiency of actions  
104 undertaken by Socicana.

105

106 **External Analysis**

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

111

Group of interviews	Main objective
Board members of Socicana	Map the positive and negative trends that the chain is facing as well as the impacts at Socicana
Other Horizontal collective organizations	Benchmarking focusing organizational structure, offered services and communication actions
Mills in the region	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.

112 **Table 1: Objectives of each interview group**

113 **Source: Developed by the authors**

114

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

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

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

122

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

125 **Theoretical Framework**

126 *Strictly coordinated agribusiness systems (SAGs)*

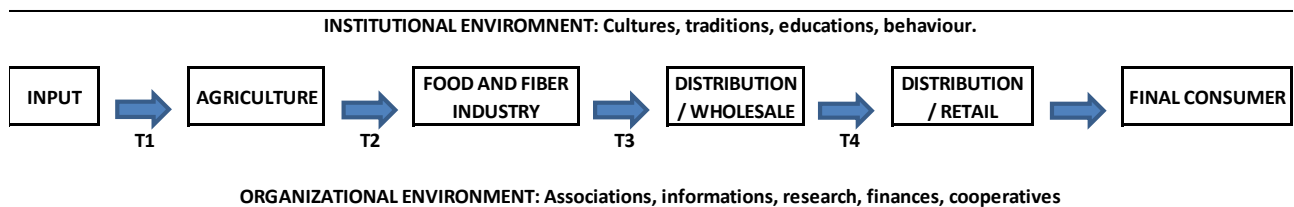
127 Agribusiness systems concept was initially proposed by Davis and Goldberg (1957) as the union of  
128 all the actors involved in the product production, processing and distribution in a chain.

129 It can be interpreted as a junction of the responsible segments for the activities performed before,  
130 inside and after farms, also including facilitating agents. Some years later, Morvan (1985)  
131 introduced another aspect in the concept analysis, adding to the analysis the transformations  
132 occurring in each link and between the links to produce the final product of a chain. To Morvan  
133 (1985) chains are systems that can ensure their own transformations. This new mode of analysis,  
134 provided an opportunity for systems to be described more clearly contributing, among other things,  
135 for the analysis of sequential interactions between organizations and the delineation of collective  
136 strategies.

137 Despite the applicability of the agribusiness concept related to agribusiness systems, it still had a  
138 very descriptive form, not considering ways to formulate models and hypothesis tests  
139 (ZYLBERSZTAJN, 1995).

140 Zylbersztajn (1995) added the theoretical support of economics transaction cost in the theories  
 141 proposed by Davis, Goldberg and Morvan, proposing that agribusiness systems (SAG) have two  
 142 variables to be highlighted: the modes of governance derived from transactions and the ones that  
 143 come from the organizational and institutional environment. Zylbersztajn (1995) based his  
 144 contributions mostly derived from newinstitutional economics and transaction cost economics from  
 145 authors as Coase and Oliver Williamson.

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



147 T = Transactions  
 148 Figure 1 – Agribusiness systems and typical transactions  
 149 Source: Zylbersztajn (1995)

150

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

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

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

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

170 The concept of SAG coordination focuses on improving relationships between organizations both  
 171 between agents of the same link (horizontal coordination), as between agents of different links,  
 172 called vertical coordination. This means, for example, that growers belonging to the same industry  
 173 of the sugarcane chain can be better coordinated for collective gains in cooperatives or associations  
 174 as an example of horizontal coordination. Therefore need to seek a governance model that  
 175 minimizes transaction costs between them. Growers and industrial units may establish pricing  
 176 mechanisms that reduce conflicts and facilitate business as an vertical coordination example.

177 SAGs coordination is directly related to the competitiveness of the system, and, differently from  
178 how it is treated in neoclassical economics, where price is the coordinator agent, in the New  
179 Institutional Economics it goes beyond: most time, prices are not able to coordinate production,  
180 having institutions and organizations significant impact on the competitiveness of the system as a  
181 whole (COASE, 1988; ZYLBERSZTAJN; FILHO, 1998)

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

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

190

### 191 *Private interest associations (PIAs)*

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

199 Private interest associations in the Brazilian agribusiness industry gained greater prominence in the  
200 90s, where, with the economic deregulation process in the country, they acquired part of the  
201 responsibility to coordinate and enhance the competitiveness of the productive systems and  
202 agribusiness (ZYLBERSZTAJN; FILHO, 1998).

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

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

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

215 - **Small and homogeneous groups**: generally, the associations present in this group have no great  
216 efforts to attract new members by having broad representation in the market. Its associates are  
217 typically large companies that do not seek very specific services in the association. The  
218 communication cost is low and investment in events and courses are almost zero. These



219 associations often generate little externality for society, being focused on the interests of its  
220 members.

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

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

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

235

#### 236 *Private interests associations challenges*

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

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

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

251 **Free-rider problem:** occurs when the benefits and services provided by an AIP are used for an  
252 opportunistic non-associated. In the sugarcane growers association for example, the sugarcane  
253 pricing system and the audit performed by the association at sugar mills is elaborated and controlled  
254 by the associations, but non-members also enjoy the same system. Often the existence of 'free  
255 riders' is something uncontrollable and unavoidable But associations must seek ways to not  
256 discourage the participation of members, like offering exclusive services for example.  
257 (ZYLBERSZTAJN, 2002).

258 **Portfolio problem:** is a consequence of the 'horizon problem' in which the associations fail to  
259 support investment in new solutions to provide services for its members that are enduring and long-  
260 term (ZYLBERSZTAJN, 2002).

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

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

### 268 *Private interests associations provided services*

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

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

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

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

291

292 Among the actions provided by a PIA, Zylbersztajn and Filho (1998) point out that three classes can  
293 be highlighted. It is important for the associations to have a clear vision about its actions and which  
294 class they fit, in order to estimate the degree of conflict that must be managed:

295 - **Actions that benefit all actors:** do not bring implications because there are no conflicts to be  
296 managed.

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

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

301 Combining the benefits that an association can provide to their members depend on the association  
302 type, its scope and its associated profile. Exemplifying this difference, Nassar and Zylbersztajn  
303 (2004) points out those homogeneous associations gets most successful actions in the provision of  
304 collective goods than heterogeneous.

305

### 306 *Social Capital - representativeness and legitimacy*

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

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

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

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

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

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

### 324 **Results and discussions**

325 Socicana is an AIP whose members are sugarcane growers. According to Zylbersztajn and Nassar  
326 (2004) classification, it can be considered a ‘large and homogeneous association’, since it has many  
327 associated with considerable representation together and they are all part of the same productive  
328 class. In this context, one aspect should be highlighted: despite being classified as a homogeneous  
329 association, its members profile is very varied because it includes growers of different sizes. The

330 small and large growers objectives in an association can be very different, even both dealing with  
 331 the same type of production.

332 The results showed that the association is very effective in political representation and in lobby  
 333 activities. Its managers (associates), have extensive knowledge about the industry and great  
 334 influence on other public bodies. The association has relatively reputation in the industry, and their  
 335 representativeness is satisfactory. Considering what was proposed by Bourdieu (1985), Bourdieu  
 336 (2005) and Burt (2001), can be said that Socicana has a good social capital, bringing representation  
 337 and economic benefits for its members. However, it could be identified that its governance structure  
 338 and internal decision making somehow concentrated on certain types of growers and mostly on  
 339 board member limit somehow its social capital, due to the fact that many interviewed growers  
 340 didn't feel themselves represented by the association. The results below somehow detleis its  
 341 perception.

342

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

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

Strengths	Weaknesses
Board members recognize that the there is availability of financial resources	Decision making is concentrated due to its organizational structure
Strong political representation	The association does not have a database, not having knowledge about its associated growers
The services offered are of good quality	The communication with the associated growers is inefficient causing unawareness of the parties and low benefit perception.
Board members very much aligned with the goals of the association	There is a lack of professionalism in the management of the association due to the fact that it is managed by members.
	Although the services offered are of good quality, there are few services offered
	Some associated growers have the perception that the association fovors more the (mills)
	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

347 **Table 2: Consolidation of the association internal analysis**

348 **Source: Developed by the authors**

349

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

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

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

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

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

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

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

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

391 **Table 3: Analysis of the external environment that the association operates**  
 392 **Source: Developed by the authors**

393  
 394 Based on this analysis, it is possible to draw a parallel between the threats and opportunities  
 395 identified in Table 3 and the impacts of these for the association. Table 4 shows the impact of each  
 396 observation in the external environment to sugarcane growers associations. Each impact is  
 397 associated with its relative point identified in Table 3.  
 398

Opportunities Impacts	Threats Impacts
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?	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.
2. Possibility of offering new services: How the association can address the environmental certification topic through services?	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.
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.	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.
4. The association should seek to engage with	10. The growers association shall, in addition to

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**

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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.

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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.

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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.

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417

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

418

## STRATEGIC ACTIONS

Restructure the governance of the association

Develop and disseminate new technologies related to sugarcane varieties

Seek and provide technical services to assist growers in their activity

Approximate association/growers associated through communication actions

Create a database that contains the characteristics of all associated growers and be used to direct services and expand communication between the parties

Encourage the formation of producer groups that perform joint actions in order to facilitate their activity

Strengthen education in the field through technical and managerial training to prepare the producer to face adversity in the industry

Search and constantly develop new business for the association and growers in the pursuit to diversify and enable the continuation of that farmer in the field

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

420 **Source: Developed by the authors**

421

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

429

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

433

### 434 **Conclusions**

435

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

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

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

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