Structure-Conduct-Performance

- The development of reliable and stable market system has been an important element in commercialization and specialization in the agricultural sector.
- In order to study the functioning of markets many researchers have applied the Structure-Conduct-Performance (SCP) paradigm.
- The SCP approach was developed in the United States as a tool to analyze the market organization of the industrial sector and
- it was later applied to assess the agricultural system and this framework was to evaluate the performance of industries in the USA (Wolday, 1994).
- Subsequently, it was applied in the functioning of markets in agricultural sector, and served as a tool to evaluate the performance of the commercial system.
- The framework distinguishes between three related levels; the structure of the market, the conduct of the market, and the performance of the market.

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- **Structure of the market**: It is defined as "those characteristics of the organization of the market that seem to exercise strategic influence on the nature of competition and pricing within the market" (Bain, 1968). The characteristics usually stressed are (a) the number and size distribution of firms in relation to the size of the market, (b) the presence or absence of barriers to entry facing new firms; (c) physical or subjective, product differentiation; (d) degrees of vertical integration; and (e) ratio of fixed to total costs.
- **Conduct of the market**: It refers to the behavior of the firm, for example, pricing and selling policies and tactics, overt or tacit inter-firm cooperation, or rivalry, and product or market related research and development activities.
- **Performance of the market**: It is commonly measured in terms of productive and allocative efficiency**.** Progressiveness or innovation is also sometimes considered. Where equity and employment creation are national objectives, these are also considered as criteria for performance assessment.

Market Concentration Measure

- The concentration of firms in the market will be estimated using the common measure of market concentration ratio. It is one of the commonly used measure of market structure, which refers to the number, and relative size of buyers in the market. It is given as:
- $C = \sum_{i=1}^{r} S_i$ I = 1,2,3,4.
- Where, S_i= the percentage market share of the i^{th} firm and r= the number of relatively larger firms for which the ratio is going to be calculated.
- Kohl's and Uhi (1985) bring into play as a rule of thumb, four largest enterprises' concentration ratio of 50% or more (an indication of a strongly oligopolistic industry), 33-50 % (a weak oligopoly) and less than that (competitive industry). The problem associated with this index is the arbitrary selection of r (the number of firms that are taken to compare the ratio).