

Agricultural Cooperatives in Europe: business models and governance practices

Jos Bijman , Wageningen University, The Netherlands

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Dr. Jos Bijman

- Professor of Management and Organisation, at Wageningen University since 2003
- Research Topics:
 - Structure and strategy of agricultural cooperatives, quality improvement, internal governance, member commitment, board-management relationship
- Current Projects:
 - Quality Improvement and Value Chain Coordination
 - Factors determining Member Commitment
 - New Producer Groups and Innovation
 - Effectiveness of Board of Directors

Outline of the Presentation

- Definition
- Support for Farmers' Cooperatives (SFC)
- Strategies
- Performance
- Transnationalisation
- Internal Governance
- Member Commitment
- The future



A matter of definition

- “A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise” (ICA / ILO)
- A cooperative is an economic organisation characterized by (Dunn, 1988):
 - User-ownership
 - User-control
 - User-benefit

Where do we come from?

- Cooperatives are an invention of second half of the 19th century.
 - As an answer to the problem of failing and missing markets
 - Also as an answer to social problems and failing government
- Cooperatives started small, as community-based enterprises
 - Collective action problems (e.g. free riding) were prevented by strong social capital (thus, through community governance)
- Over time, cooperatives have grown beyond the community
- Cooperatives have become more business, and less community-based association

SUPPORT FOR FARMERS' COOPERATIVES (SFC)



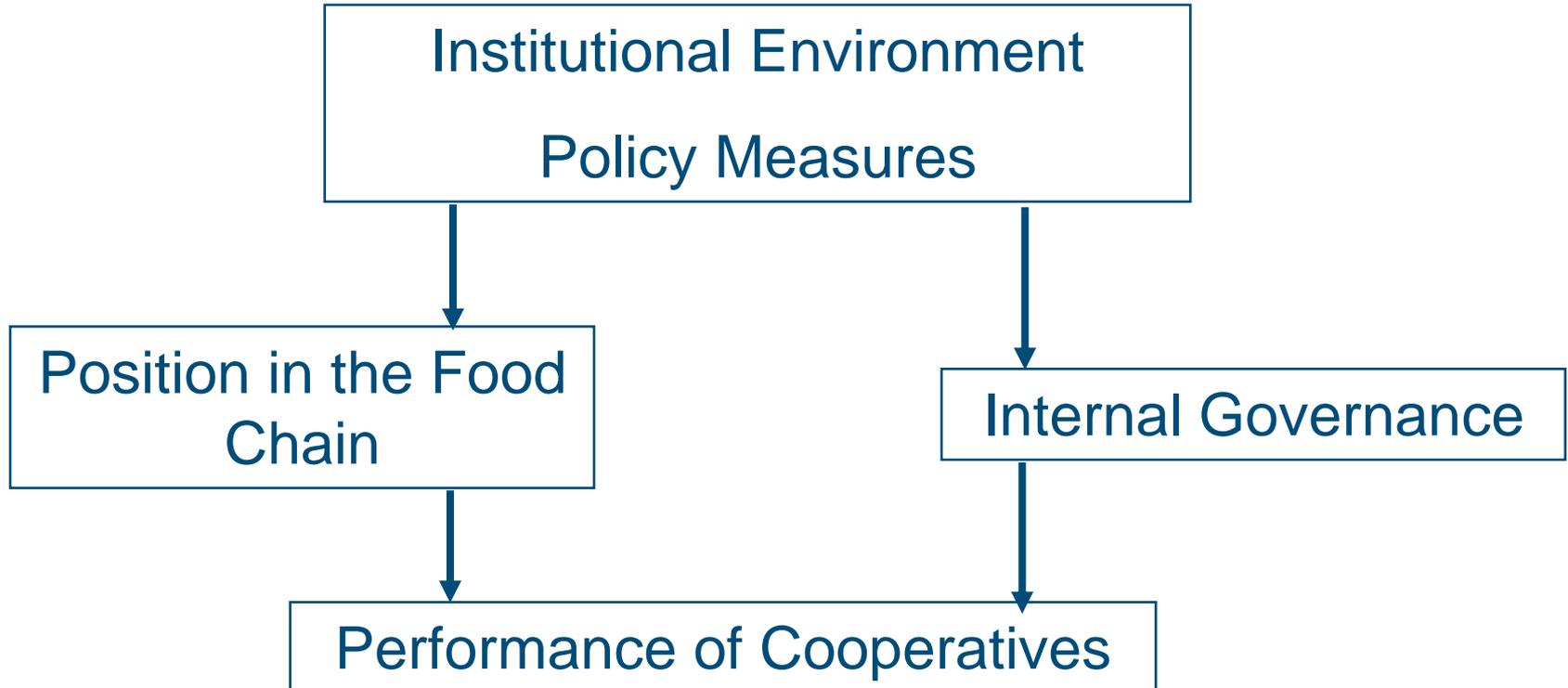
Support for Farmers' Cooperatives (SFC)

- Key question: What is the current status of agricultural marketing cooperatives in the EU, and what is the role of public policies in supporting the development of cooperatives?
 - Project for the European Commission, DG Agriculture and Rural Development
 - Carried out in 2011 and 2012
 - Consortium: 11 partners + 27 cooperative experts (one from each EU Member State)

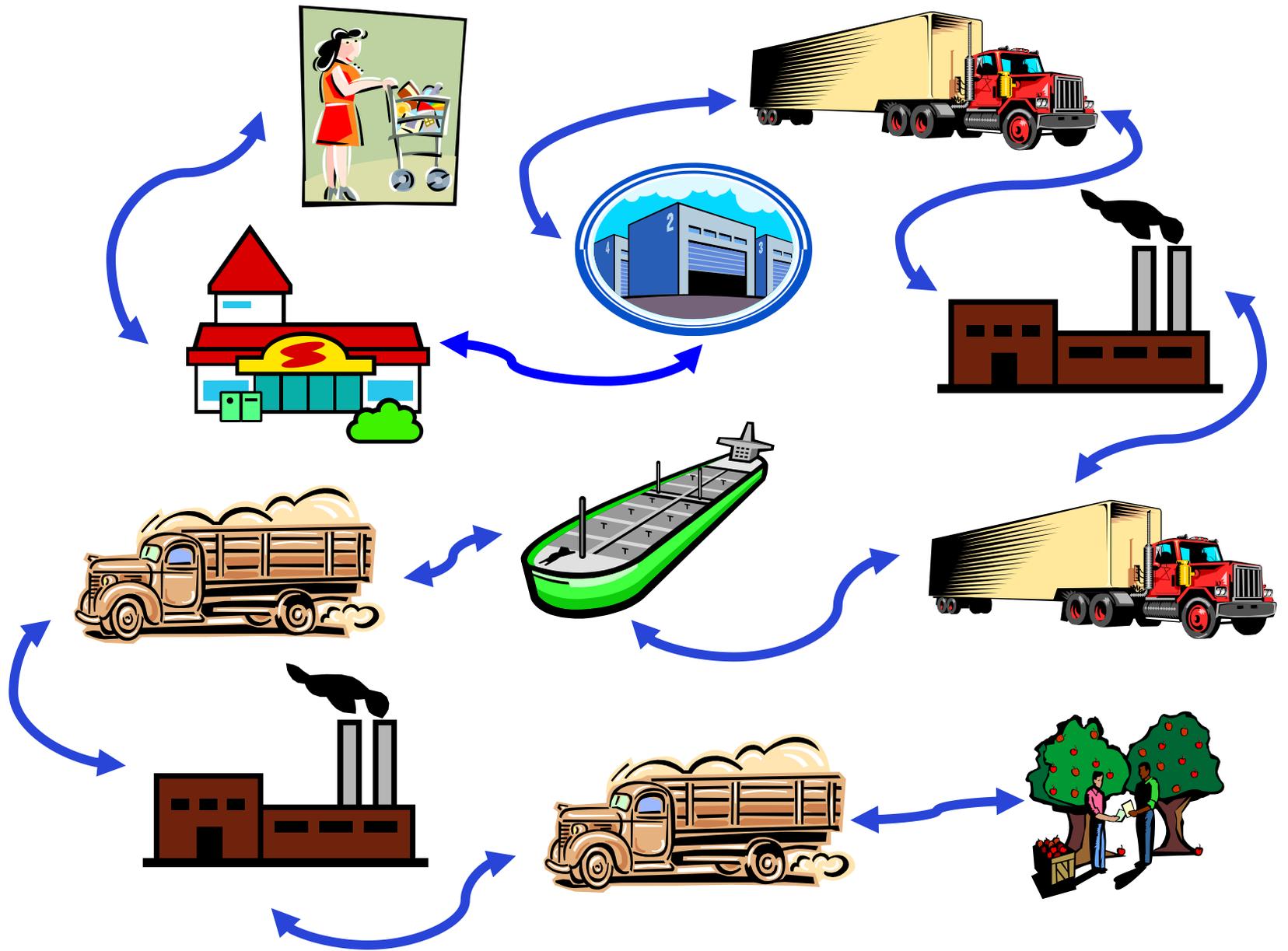
Deliverables of the SFC project

- 27 country reports
- 8 sector reports
 - cereals, dairy, F&V, pig meat, sheep meat, olives, wine and sugar
- 6 cross-cutting theme reports
 - Legal issues, policy measures, internal governance, internationalization, social and cultural aspects, food chain
- 34 case studies
 - 18 national/sectoral cases
 - 15 transnational cases
- 3 other reports
 - A report on development of cooperatives in other OECD countries
 - A cluster analysis
 - A typology

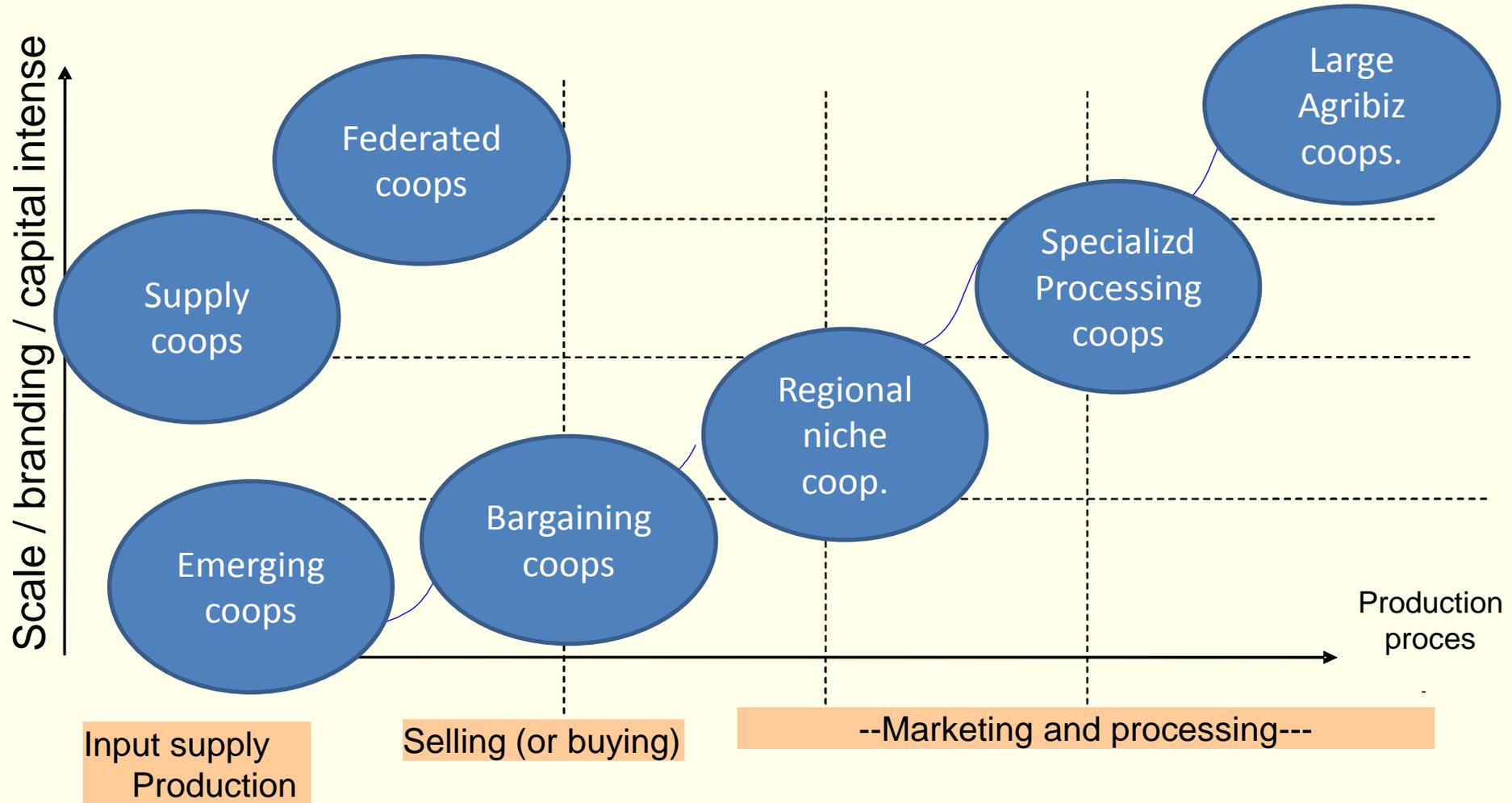
Core concepts in our approach



STRATEGY: POSITIONING



Strategic Positioning

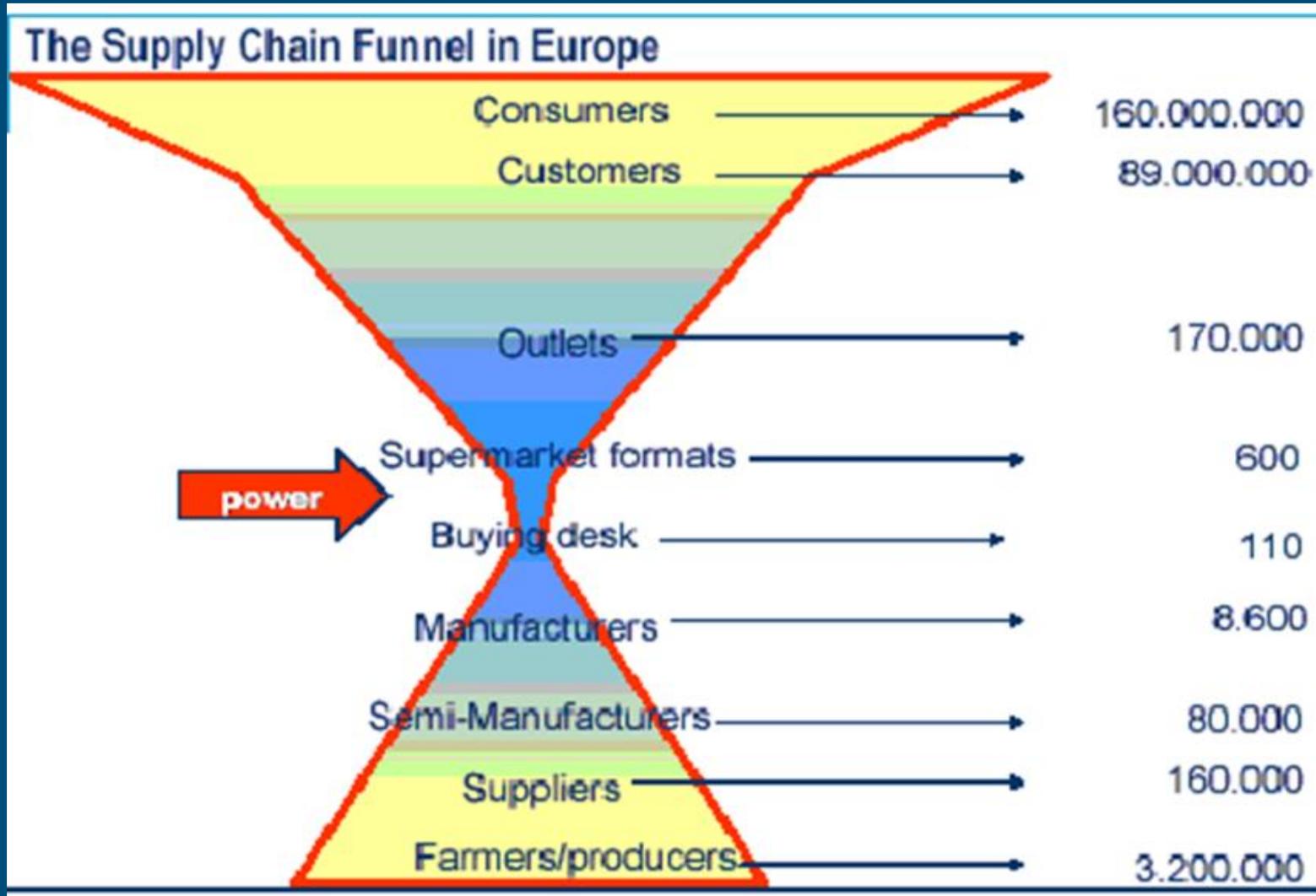


Clustering of 500 European Cooperatives, clustered on characteristics (excluding region and policies of the region relevant for those coops)

Strategic challenges for agrifood cooperatives

- Concentrated retail sector
 - Strengthen bargaining power
- Food safety and quality
 - Enhance supply chain coordination
- Globalisation
 - Grow domestically and internationally?
- Attract good managers
 - Change in internal governance?
- Finding additional equity capital
 - Need to change ownership structure?

Bargaining power is crucial



Traditional vs. modern strategies of cooperatives

■ Traditional strategies:

- Bargaining in input markets and output markets
- Reduction of transaction costs
- Providing credit / insurance / technical assistance

■ Modern strategies:

- Market orientation / customer responsiveness
- Quality control / quality assurance
- Innovation / product development
- Logistic efficiency

+ traditional strategies

Strengthening value chain coordination: what is needed to be successful?

- Aligning member interests with customer interests
- Professionalization of management
- Introducing quality control systems
- Increase investments in R&D and innovation
- Strengthening member commitment

Conclusion on cooperatives in value chains

- Two types of collaboration:
 - Horizontal collaboration (among farmers)
 - Vertical collaboration (in value chain)

- Key tasks for cooperative leaders:
 - To align horizontal and vertical collaboration
 - To organize both cooperation and coordination

PERFORMANCE: MARKET SHARE



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Performance of cooperatives

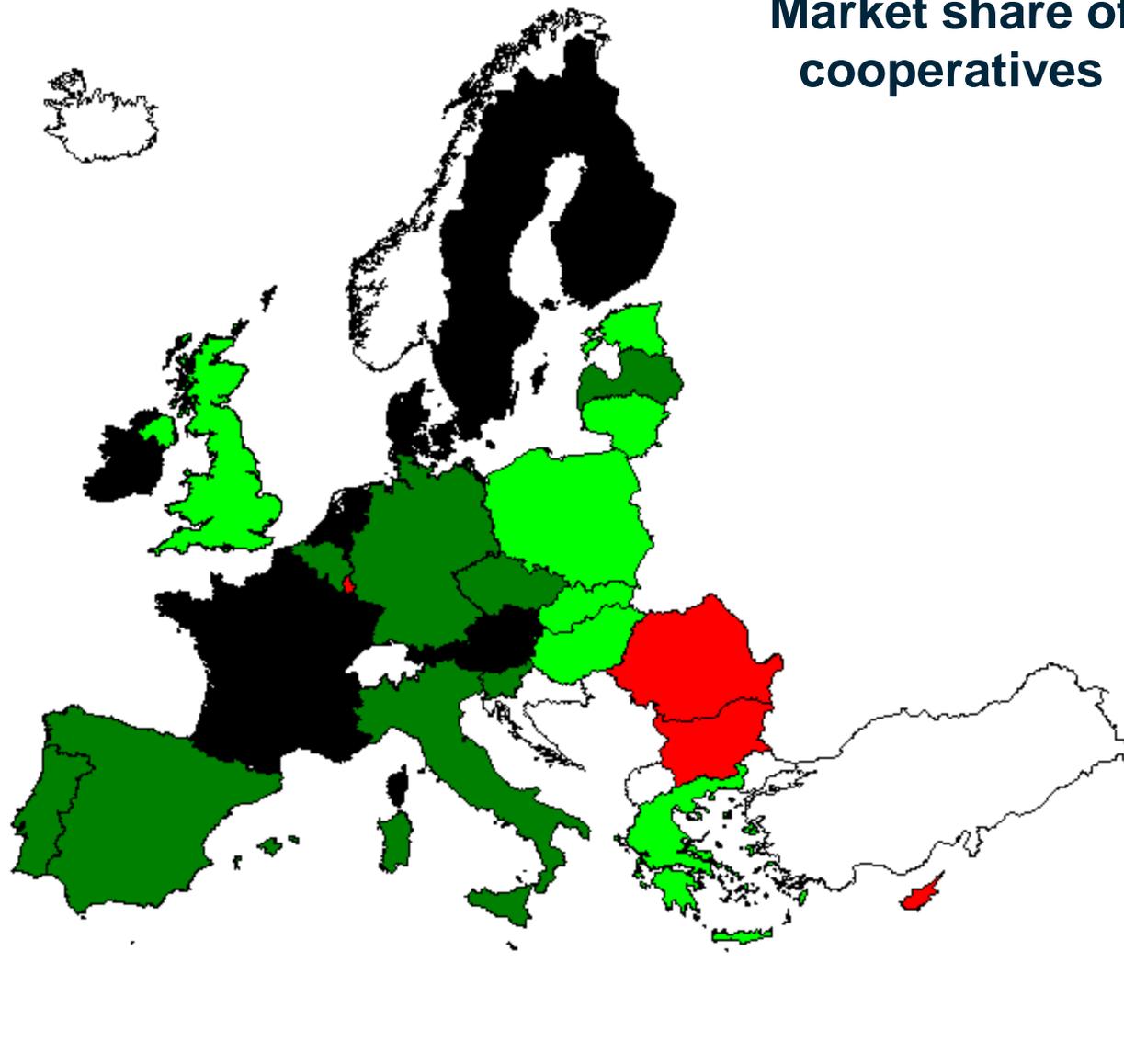
- Measuring performance of cooperatives is rather difficult. There is no agreement among academics how to measure performance (e.g. growth, profit, financial ratio's; member satisfaction, quality of the services, etc.)
- We used three indicators:
 - Market share
 - Change in market share
 - Prices paid to farmers (only in dairy)

NUTS level 0 (2006)

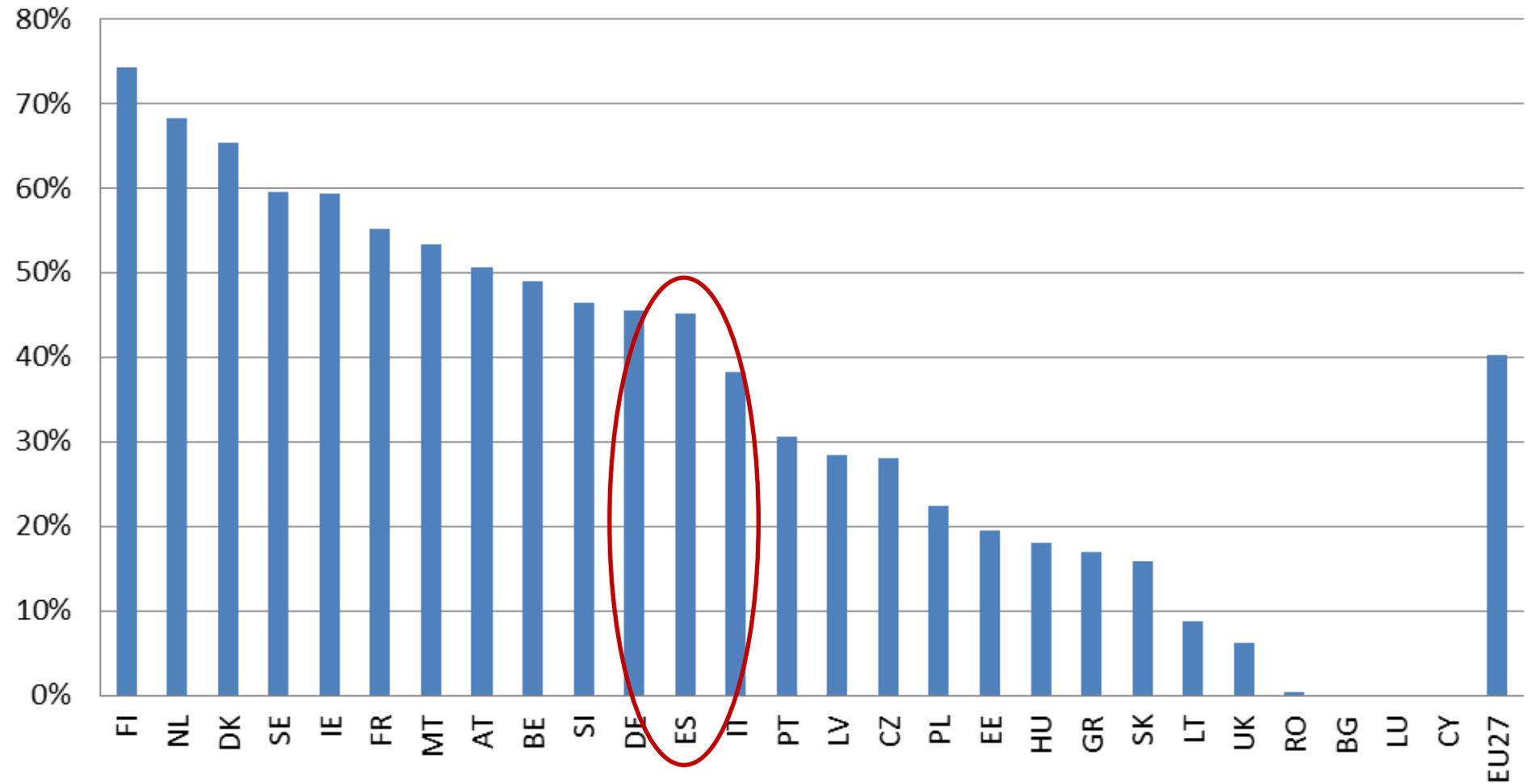
TOTAL8

- not relevant
- not available
- zero
- 0 - 25 %
- 25 - 50 %
- more than 50%

Market share of cooperatives



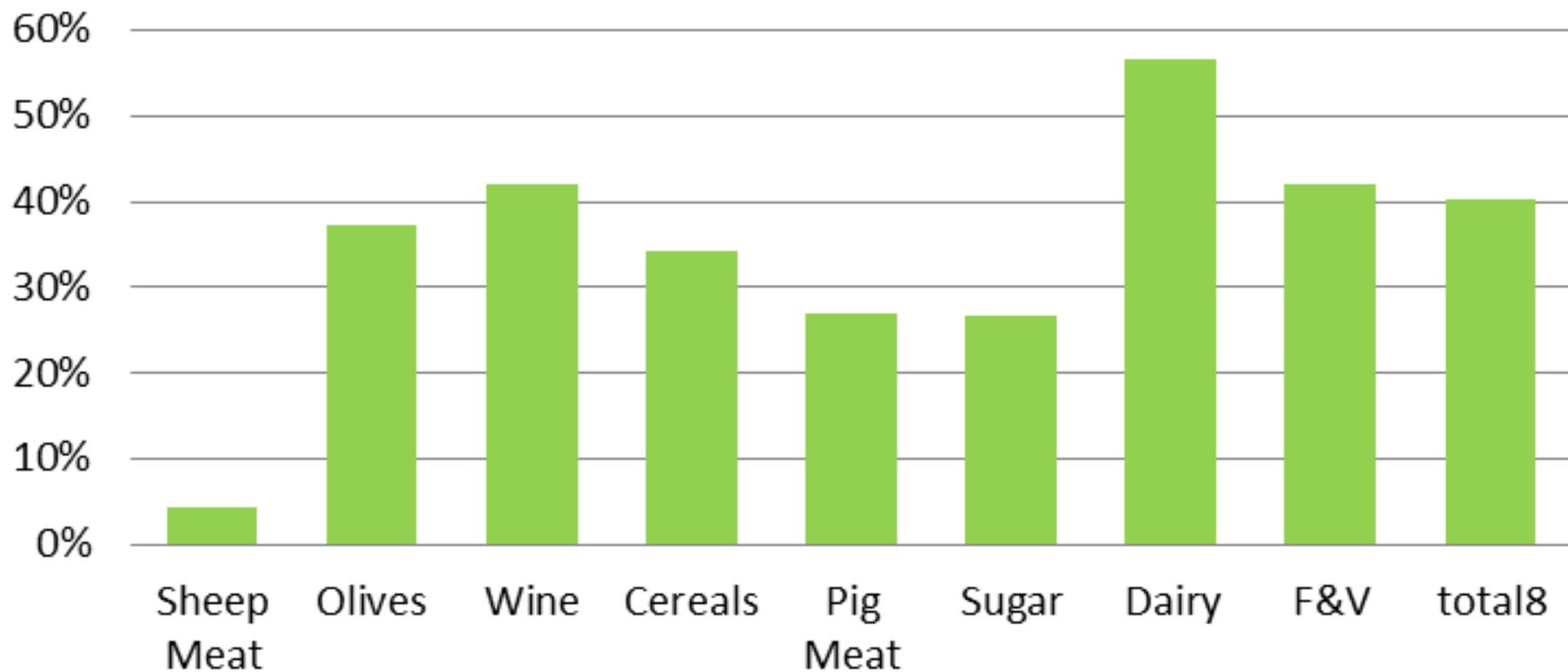
Market share cooperatives, per country, 2010



Development of Market Shares

	Milk			Fruit and Vegetables		
	1995	2003	2010	1995	2003	2010
AU	90	94	95	n.a.	35	50
B	50	50	66	70-90	85	83
DK	93	97	96	20-25	30	50
FI	94	97	97	n.a.	12	40
FR	49	37	55	35-50	45	35
GE	20	68	65	60	30	40
IT	38	n.a.	42	41	n.a.	50
NL	82	85	90	70-96	85	95
ES		40	40		15-45	50
SW	99	90	100	60	45	70

Market share cooperatives, EU per sector, 2010



Competitive Yardstick Theory

- Do cooperatives lead to higher prices?
- For the dairy sector, Hanisch et al. (2013) found that a large market share for cooperatives in a country leads to a higher price and a lower price volatility
 - HANISCH, M., ROMMEL, J. & MÜLLER, M. 2013. The Cooperative Yardstick Revisited: Panel Evidence from the European Dairy Sectors. *Journal of Agricultural & Food Industrial Organization*. Vol 11, pp 151 ff

INTERNATIONAL GROWTH

How transnational are cooperatives?

- Cooperatives are very international as it comes to selling products
- Cooperatives are mainly national as it comes to location of members
- Out of the top 500 agricultural cooperatives in Europe, only 46 had members in two or more countries (=transnational cooperatives)
 - Mainly in Dairy, and Fruit and Vegetables
 - Mainly in Netherlands, Denmark, Belgium, Austria, Ireland

Structure and locality

- In Southern Europe, ties with local government are still strong; to combine local benefits with scale economies in processing and marketing, federated structures are often used
- In Northern Europe, federated structures are disappearing, due to the need to shorten supply chains and to reduce transaction costs
- In France, cooperatives are registered by territory. Through cooperative groups they combine territorial benefits and expansion outside the territory

INTERNAL GOVERNANCE

The cooperative as a rowing boat



Many similarities



Rowing boat

- Competition
- Team
- Coxswain (steersman)
- Coordination needed
- Boat
- Direction

Cooperative

- Competition
- Members
- Director(s)
- Coordination needed
- Assets
- Strategy

Internal Governance = Corporate Governance

- The corporate governance structure specifies the distribution of rights and responsibilities to different participants in the corporation (like Board, managers, shareholders, employees) and other stakeholders
- Corporate Governance in Cooperatives:
 - Different legislation
 - Similar issues of control
 - Key difference: cooperatives is member-based organisation

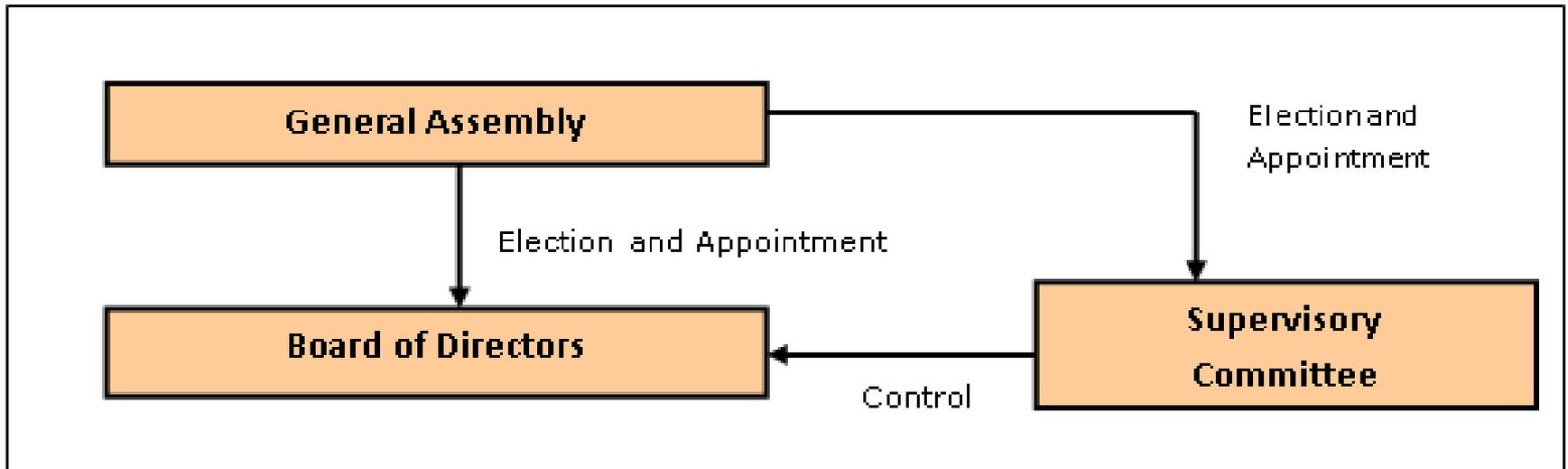
How / why is internal governance changing?

- Starting point: Every country has its own legislation on cooperatives (and some countries have no legislation)
- Need to strengthen member control:
 - Supervisory board
 - Member Council
 - Strengthening expertise in Board of Directors
- Different Board Structures:
 - Dualist: Clear distinction between Board of Directors and Professional Management
 - Monist: Chairman is CEO

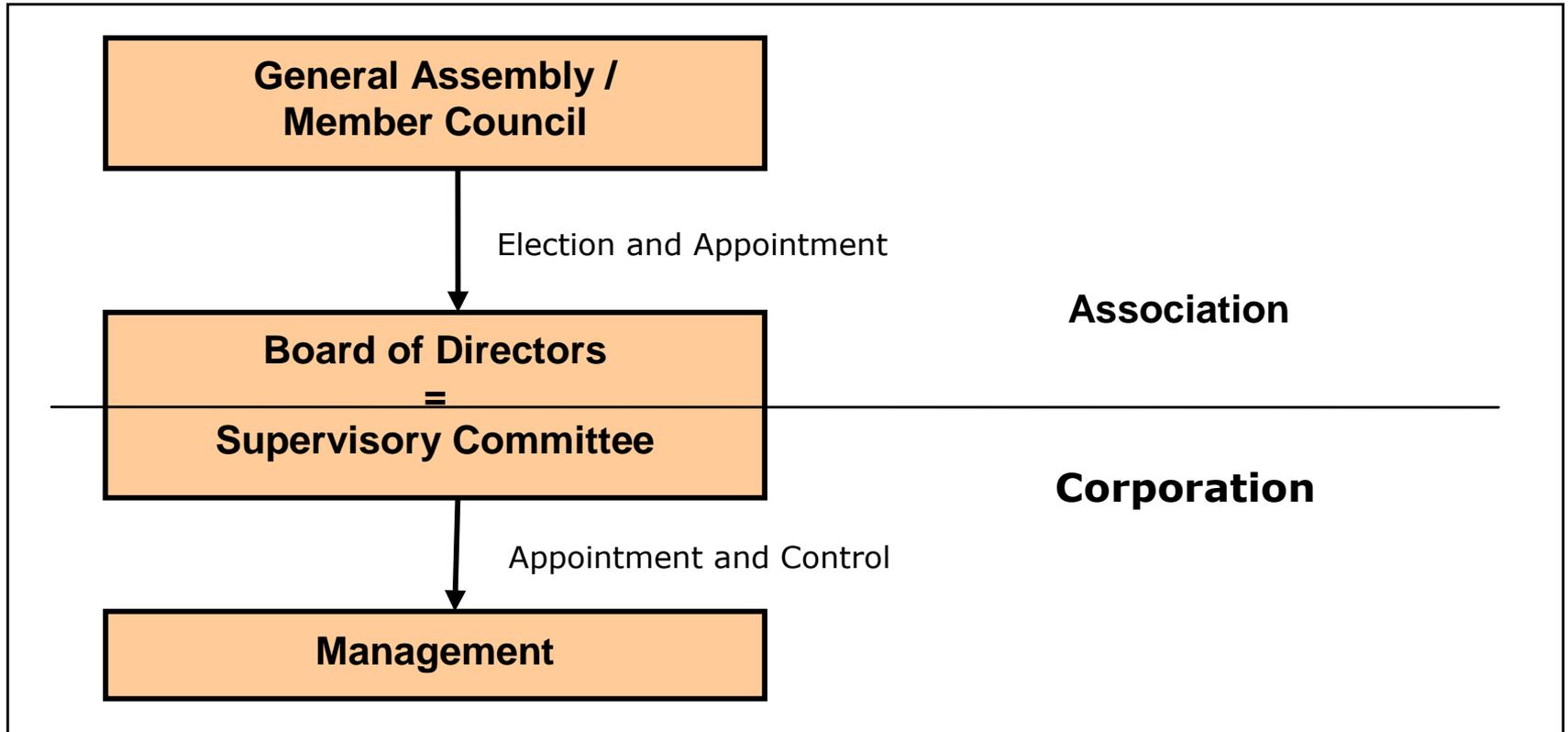
Do internal governance choices matter?

- Results from the SFC Project:
- The following attributes of “modern” cooperatives have a positive effect on cooperative performance:
 - proportional voting rights
 - professional management
 - supervisory board, with outsiders
 - selection of directors based on expertise or product representation as opposed to regional origin

Traditional Model of Internal Governance



Corporation Model of Internal Governance



MEMBER COMMITMENT

Why is member commitment important?

- A cooperative has voluntary membership;
 - if member are not happy, they will leave (which leads to a loss for the cooperative)
- Decision-making requires member participation
 - in Board, General Assembly, Committees, etc
- Members are (main) source of equity capital
 - Uncommitted members may not want to provide capital
- Commitment reduces transaction costs
 - Committed members are less likely to free ride or side sell

What type of commitment does cooperative want from members?

- Loyalty = recurrent transaction with cooperative
- Effort = investment and participation in the cooperative
- Identity = adherence to strategy and value of the cooperative

How to manage member commitment?

- Because members have a threefold relationship with the cooperative, commitment is affected by all three relationships
- But the order is very important:
 1. Benefit
 2. Control
 3. Ownership

Determinants of member commitment

- Economic factors: price/quality ratio of product or services; perceived connection between own success and cooperative success
- Organizational factors: active participation; transparent decision-making; communication
- Normative factors: socialization, institutionalized norms
- Affective factors: cooperative identity, personal preferences, positive experiences

How do Dutch cooperatives strengthen member commitment?

- Loyalty:
 - Pay good price
 - Provide good quality services
- Effort:
 - Reward participation
 - Fair return on investment
- Identity:
 - Transparency / Communication
 - Accountability
 - Clear leadership

THE FUTURE OF AGRIFOOD COOPERATIVES

Governance and management choices

- Strategy: Competition forces cooperatives to make choices:
 - To become more specialized or diversified
 - To grow nationally or internationally (or even transnationally)
 - To focus on bargaining power or product development
 - To remain federated or become integrated

- Internal governance:
 - Large, diversified and/or international cooperatives are more prone to management control problems
 - Supervision needs to be strengthened

- Member – Cooperative Relationship:
 - Member commitment is crucial, but increasingly challenged
 - This issue needs more attention from board and managers

The future of agrifood cooperatives

Helping producers to sustainably and efficiently meet consumer demand for sufficient and healthy food



Thank you for your attention

All reports of Support for Farmers' Cooperatives project can be found at:

<http://www.wageningenur.nl/en/Expertise-Services/Research-Institutes/lei/show/Support-for-Farmers-Cooperatives.htm>

For more information on the European Training Programme on Internationalisation of Agri-Cooperatives:

<http://www.wageningenur.nl/en/show/Internationalization-of-agricoopatives-1.htm>

Jos.Bijman@wur.nl