



***Jerker Nilsson*** is heading the unit for research on co-operatives at the Swedish University of Agricultural Sciences. During the last 15 years professor Nilsson's research has focused on agricultural co-operatives in developed countries, while the 15 preceding years were devoted to research on consumer co-operatives and to some extent housing co-operatives. He has written *Reseller Assortment Decision Criteria* (1987) and edited *Strategies and Structures in the Agro-Food Industries* (1997). His articles have appeared in, i.a., *Annals of Public and Co-operative Economics* and *Journal of Co-operatives*. He is editing *Vertical Markets and Co-operative cs and*



This volume is devoted to agricultural co-operatives. It comprises four papers and two case studies, all of which are based on extensive empirical bases, though of very different kinds. All six works were first presented at two international conferences, titled "Vertical Markets and Co-operative Hierarchies: The Role of Co-operatives in the International Agri-Food Industry", held in 2003 in Bad Herrenalb, Germany, and in 2004 in Chania, Greece, respectively.

Agricultural co-operatives have members who are business people. Hence, they are subject to competition – competition between the co-operative and investor-own, rn]TJTÇu3ceople. H.1252.nq1 i -018-ave v.44l Twn44l 7 ver

namely the formation of so-called strategic alliances. The study is based on empirical material from Western France.

Strategic alliance formation is an extremely important tool for agricultural co-operatives – much more than for their investor-owned competitors. A plausible reason for this is that co-operatives tend to have difficulties in attracting much equity capital, and thereby they can not acquire other firms to any large degree. The members do not want to invest in the co-operative as they need their capital for investments in the farm enterprises, and they require their co-operatives to pay so much for the produce delivered that the co-operative has limited possibilities to build up collective equity.

Many strategic alliances that two or more co-operatives form can be regarded as a first step towards a merger. The large number of mergers between co-operatives can be explained by limited financial resources, i.e., it is cheaper to merge than to acquire the partner. So why not merge in the first place, rather than creating an alliance that might result in a future merger? One answer relates to the balance of power, i.e., one of the partners might not want to give up its independence, at least not at the time of the alliance formation. Another reason might be that the alliance concerns some specific business activities rather than not the entire operations of the co-operative firms.

In the latter type of alliances, it is not necessary that both partners are co-operative firms. As each of the partnering firms may be involved in a large number of other alliances, large networks may appear. Hence, the agricultural co-operatives become integral parts in the agri-food industry at large, making it difficult for the co-operatives to preserve a special co-operative identity.

Most often, the agricultural co-operatives form alliances with partners, which are close geographically, and thereby also similar in terms of market relations, production conditions, etc. However, also cross-border alliances are possible. This is mentioned in the article by Guillizou and Ruffio. The article presents trends concerning the internationalisation of the European dairy co-operatives, and one way to be international is through alliances with foreign partners.

International business activities are today a necessity in many industries, not the least in the dairy industries. As the customers, i.e., the retail chains, are international and have international alliances, also the dairy co-operatives must work internationally. Further, as some of the dairy processors market their products internationally, the others have to follow suit,

otherwise they will get difficulties in finding buyers to their products.

While international marketing activities are very commonplace in the European dairy co-operative sector, there are relatively few examples of transnational co-operatives, i.e., co-operative societies with members in two or more countries. Another kind of internationalisation is that a co-operative owns production facilities abroad – if so, it could also buy milk from farmers in the foreign country, thereby acting towards these farmers as a capitalist firm would do. Also, the “opposite” strategy exists, i.e., that a co-operative bases its processing mainly on imported milk, while the members’ milk stand for a smaller part of the processed volume.

Guillizou and Ruffio systematise six main internationalisation strategies for dairy co-operatives, and they present numerous empirical examples of each. In some cases, the internationalisation has reached a stage, where “there is ... no longer any difference with non-co-operative dairy multinational companies”. The internationalisation process continues, challenging co-operatives to become more and more business-oriented – this is to the benefit of the members.

*Jerker Nilsson, Guest Editor*  
*December 2005*

## Mission of the Journal

---

- *To act as a medium for the dissemination of best management practise in the co-operative movement*
- *To act as a medium for the publication and dissemination of research into the management of co-operatives*
- *To act as a platform for informed debate within the co-operative sector on issues and problems arising from the management of co-operatives*
- *To act as a vehicle for promoting the professional development and status of managers in the co-operative sector across the management profession as a whole.*
- *To act as a medium for the discussion and dissemination of the latest thinking in all areas of management that may have a relevance to the practise of management in the co-operative sector.*



source of greater resentment, a monopoly arises by a co-operative merging with another co-operative or buying out a non-co-operative competitor. The surviving co-operative's objective is typically not to create a monopoly and exert market power against members. Rather, it is to achieve greater efficiencies and to provide farmer members with a more secure market for their inputs and outputs. If the firms taken over were having financial difficulties, the surviving co-operatives may be forced to reduce service or product lines. This can also increase the resentment of the dominant co-operative.

Farmers rarely consider the economic alternatives to a co-operative monopoly. They can include: uncompetitive prices, bankruptcy, a non-co-operative monopoly, or no market whatsoever. There is a high



## General Attitudes toward co-operatives

Research on farmer attitudes towards co-operatives indicates that among any group of farmers about 30% prefer to deal with co-operatives and are loyal to some degree, 30 % dislike co-operatives in various degrees, and about 40% are more or less indifferent about dealing with co-operatives.

Depending on farmers' individual and group experience with co-operatives, the relationship may take on other forms. Also, co-operatives, individually and as a group, have the ability to influence the shape and position the relationship with farmers.

## Misconceptions about co-operatives

There can be a number of negative misconceptions about co-operatives. The following are some that one often hears.

### ***Abandonment of original purpose***

This misconception is often packaged in this manner: "This co-operative was started by and for small farmers, and now it has abandoned its original purpose." It is true that the loyalty of small farmers was important to the early success of several co-operatives.

However, three facts are often forgotten. First, in the first half of the 20th century, the success of several co-operatives was due to the loyalty of small farmers. However, the success of several co-operatives was due to the loyalty of small farmers. However, the success of several co-operatives was due to the loyalty of small farmers.





Because of their close relationship with members, there can be a strong tendency to maintain the status quo. These factors can also inhibit the organization from adapting appropriate strategies. Finally, some co-operatives have poorly implemented otherwise appropriate strategies.

### **Problem at capitalisation**

---

A common complaint of co-operatives is they do not have sufficient access to adequate capital. Being too dependent on debt is dangerous, especially with new operations or high risk operations. Sometimes co-operatives do not require a significant amount of equity from members. Usually if the return is high enough, members would be more willing to invest larger amounts of equity.

Another reason members are unwilling to invest more equity is because of poorly functioning equity programs, resulting in members not receiving their invested equity in a timely manner.

then responsible for: the selection of management,

## Abstract

---

In 2001 the co-operative Cebeco Group held the second place on the list of 25 largest co-operatives in

administrative units. The trend of mergers among (neighboring) co-operatives in order to lower costs is particularly visible in the dairy and compound feed industries (see Appendix 1).

### ***Internationalization***

Given the small size of the Dutch market and the increasing competition from abroad, Dutch co-operatives started seeking growth by international expansion. Internationalization of co-operatives has two elements: one is the internationalization of the commercial activities and the other is internationalization of the membership. Internationalization of commercial activities has grown substantially throughout the 1990s (Bijman and Van Tulder, 1999). Internationalization of membership is only a recent development, with still many discussions about its desirability taking place in the boardrooms of the large co-operatives. Cross-border mergers of co-operatives are still rare, one of the reasons being the differences in legislation on co-operatives in the various EU countries.

### ***Changing corporate governance***

A farmer-owned co-operative is both an association and a firm. The firm (or co-operative firm, CF) is owned by the association. Thus, the members collectively own the CF. Over the last ten years we have seen a change in the corporate governance structure of most large co-operatives, where the CF has become a limited liability company (Ltd) or a Public liability company (Plc), and the association has become a holding company, usually being the 100% shareholder of the limited company (van der Sangen, 2001).<sup>1</sup> This implies a redefining of the allocation of authority between board of directors and management board by giving the latter more authority in operational and even strategic matters. It also implies a larger administrative distance between members of the association and the CF.

Reasons for this changes of corporate structure were reducing liability, spreading risks, and a more formal distinction between the association and commercial activities of the CF.

### ***Restructuring federated co-operatives***

Most federated co-operatives have disappeared by merging the local co-operatives with the top co-operative (Bijman et al., 2004). In some cases the local co-operatives had grown so large that they preferred to

organizing transactions. Markets and firms are institutions, which use both of these methods.

The market-hierarchy dichotomy has been criticized by many authors. Two approaches can be distinguished in this literature. First, some authors consider network governance as a distinct form of coordinating and safeguarding economic exchange, which contrasts (and competes) with markets and hierarchies (e.g. Powell, 1990; Jones et al., 1997). The essence of network governance is social mechanisms. Second,





### **Hierarchy**

Coordination in co-operatives is a combination of horizontal and vertical alignment. Horizontal alignment is important in order to gain economies of scale and bargaining power. Sequential interdependence and therefore vertical coordination has become more important in recent years, as quality throughout the supply chain has to be maintained, as specific consumer demands have to be communicated all the way back to the supplier of breeding stock, and as information about what each stage in the supply chain does has become important for providing guarantees on safety, sustainability and animal friendliness. Product innovation often encourages vertical alignment between producers, traders and retailers. These developments imply a strengthening of information exchange and a centralization of decision-making. As operational control lies with the management of the CF, those developments require a strengthening of the authority of CF management. According to Hendrikse (2004), members may increase the efficiency of the co-operative by delegating a larger part of decision-making authority to the management of the CF. While the members, through their association, maintain formal authority, the management of the CF obtains informal authority (on both operational and strategic issues). The changes in corporate governance as described in section 2 can be considered as formalization of the changes in hierarchy.

The agency relationship between MFs and CF seem to be turning around. Traditionally, members control the CF by taking joint decisions on strategic and operational matters and having the management of the CF carry out these decisions. Nowadays, the board of directors only controls the CF afterwards. With a strengthening of the formal and informal authority of the management of the CF, the role of principal and agent seem to be reversed. In the transaction relationship, the CF is the principal and the MFs are the agents. In case members deliver a differentiated product, this new agency relationship is a very individual relationship, with individual delivery conditions for almost each member. As such it reinforces the heterogeneity among the members as described above.

In conclusion, we see that the network elements of coordination and motivation diminish in effectiveness, the price mechanism has remained the same or is strengthened (in the sense of becoming more individualized), and the hierarchy elements are reduced as far as member control over the CF is concerned. We will now illustrate these developments

with the example of the restructuring process of federated co-operative Cebeco Group.

---







**Table 2. Top 25 Dutch agricultural co-operatives (2003)**

	Co-operative	Product	Members	Turnover
1	Royal Friesland	Dairy	4575	11000
2	Campina	Dairy	3655	9084
3	FloraHolland	Flowers	1919	3996
4	Bloemenveiling Aalsmeer	Flowers	1598	3245
5	The Greenery	Vegetables	1570	4150
6	Cosun	Sugar	1321	11693
7	Cehave Landbouwbelaang	Supply	751	6149
8	Agrifirm	Supply	660	16800
9	Avebe	Potatoes	635	4338
10	Cebeco Group	Supply	626	--
11	CNB	Bulbs	353	1988
12	ABCTA	Supply	330	6205
13	Fruitmasters	Fruit	283	1030
14	DOC Kaas	Dairy	273	855
15	ZON	Vegetables	262	772
16	CNC	Mushrooms	248	352
17	Agrico	Potatoes	227	1279
18	FresQ	Vegetables	192	87
19	CZAV	Supply	184	3162
20	Rijnvallei	Supply	138	2331
21	CONO	Dairy	126	523
22	CR Delta	Cattle breeding	109	30586
23	Boerenbond Deurne	Supply	96	665
24	BGB	Vegetables	81	64
25	Pigtire Group	Hog breeding	72	2500

Source: NCR ([www.co-operatie.nl](http://www.co-operatie.nl))

**Table 3. Ke financial figures Cebeco Group, 1995-2003**

	2003	2002	2001	2000	1..	1..	1..	1..	1.. 5
Turnover	626	1261	3911	3423	3011	2709	2454	2241	2075
EBIT	4.7	29.0	24.7	48.9	51.7	41.2	35.7	40.9	58.9
Group results	3.6	45.2	-104.0	22.4	31.2	7.4	20.9	21.0	20.6
Depreciation	11.3	33.2	49.2	49.7	52.9	50.8	44.0	40.3	40.6
Cash flow	14.9	78.4	-54.6	72.1	84.1	58.2	64.9	61.3	61.2
Net results co-operative	1.4	39.7	-107.9	9.4	16.3	4.6	14.9	13.5	12.2
Investments	8.1	23.3	62.2	59.4	77.3	52.5	46.2	74.4	23.3
Members' equity	117.3	121.9	88.8	210.7	222.8	200.5	230.3	151.1	139.5
Group equity	129.8	136.5	146.0	355.5	314.9	277.4	302.5	219.5	209.4
Capital base	134.6	143.8	167.4	395.6	355.2	315.9	349.6	271.5	259.7
Total assets (balance sheet total)	288.0	342.0	898.7	1087.9	984.1	898.9	798.8	727.0	665.1
Group results as % of group equity	2.7	32.0	-29.2	7.1	11.2	2.5	9.5	4.5	4.7
Net profit as % of members' equity	1.2	37.6	-51.2	4.2	8.1	2.0	9.8	4.4	4.2
Capital base as % of total assets	46.7	42.1	18.6	36.4	36.1	35.1	43.8	17.0	17.7

# Internationalisation of European dairy co-operatives

Raïmond Guillou & Philippe Ruffio

## Abstract

Ongoing changes in the agrifood industry question the ability of agricultural co-operatives to adapt to new challenges and define new market strategies to confront stronger competition. Internationalisation of production and marketing is one of the main answers to these challenges.

Based on an empirical analysis of more than 30 European dairy co-operatives, the aim of this paper is to present the diversity of strategies used by dairy co-operatives on the international scene and to investigate possible specificities by comparison with investor-owned firms. In particular, an issue to be raised is that of perpetuating reference to the co-operative model and principles for cross-border business.

Based on a clustering of international strategies the authors show that many co-operatives are confronted by an internationalisation process (either at milk collection, processing or marketing levels) taking advantage of various specific assets. Partnerships may play a key role as a resource multiplier. Most international strategies do not refer to the co-operative model as a business organisation. Nevertheless, some examples may be identified, where the co-operative model remains the reference coming out of the emergence of European transnational co-operatives.

## Key words

Co-operative, Dairy Industry, Internationalisation, Market Strategy, Transeuropean

## Background

Ongoing changes in the agrifood industry question the ability of farmer co-operatives to adapt to new challenges and define new market strategies to confront stronger competition on domestic, European and world markets. Internationalisation of production and marketing is one of the main answers to these challenges. Most investor-owned firms (IOFs) and many co-operatives have been implementing this strategy, despite the limitations imposed on the latter.

The aim of this paper is to present the diversity of strategies used by dairy co-operatives on the international scene and to investigate possible

specificities by comparison with investor-owned firms. In particular, an issue to be raised is that of perpetuating reference to the co-operative model and principles for cross-border business.

The dairy co-operatives in Europe are a good example. The dairy industry is facing an internationalisation process. In a context of international trade liberalisation and of unbalance of the world's milk market, the current trend towards developing dairy product exchanges should continue. The volume of these exchanges has increased 3-fold since 1970, whereas the world's milk production only increased by 50%, from 392 million to 579 million tonnes between 1970 and 2000 (Rouyer, 2002). This industry is probably among the most concentrated businesses of the food sector. At the global level, the recent waves of intense acquisitions, mergers and alliances (almost half of which were international) have contributed to redefining the corporate landscape of the sector. Between 1998 and 2002, 70 % of transactions involved the European continent (Zwanenberg, 2002).

Co-operatives play a key role in the dairy industries of most countries in Europe and around the world (Van Bakkum and Van Dijk, 1997). European co-operatives handle 25 % of the activity of the World's 25 largest dairy companies and represent five of the first ten dairy co-operatives worldwide. Even if they are highly heterogeneous in their structures and strategies (Bijman, 1998; Van Bakkum and Nilsson, 2000), in most countries co-operatives are on the defensive and have to brace themselves to retain their market shares and their brand reputation against non-co-operative competitors (Bessey et al., 2000).

Internationalisation now appears to the largest companies in the sector as an unavoidable strategy (Bremmers and Zuurbier, 1997) motivated by the need to reduce costs (labour, equipment and raw material), to find new openings in a market that has reached maturity in western countries, to maintain and secure their market shares and strengthen their market power, to diversify risks by distributing activities over several distinct areas, to by-pass trade barriers in certain countries or to improve access to capital.

The article is organised as follows. Next, we show that a number of co-operatives are confronted with an

internationalisation process. Then we identify six main strategies. Finally, we show that co-operatives take advantage of their various skills and competencies to fit



and Unigrana have for a few years only conducted a policy of exports to markets where the Parmiggiano image could be exploited. They haven't yet invested in specific commercial infrastructures.

In France, the Isigny-Sainte-Mère co-operative gets 40 % of its turnover from exporting top-of-the-range PDO and otherwise protected products (cream, butter, Camember, Pont l'Évêque).

### **(3) Taking advantage abroad of a commercial asset or know-how**

The aim of this strategy is to take advantage of a foreign market through franchise agreements of a commercial success achieved on the domestic market. A characteristic example of that approach is the French Sodial group, one of the first agrifood companies in Europe to develop, in 1969, an original formula which combines production, marketing and sales support. Its Yoplait subsidiary has franchised partners in about fifty countries. The franchise system currently represents its first growth input and Yoplait is the second brand name of fresh dairy products world-wide. Its other subsidiary Candia has gradually developed its international activities since 1977 and is present in Africa, the Middle-East and Asia.

Swiss co-operative group Emmi, whose six plants are in Switzerland, has also expanded abroad (Europe, North America, Asia) through licence agreements exploiting the Emmi brand name and know-how.

### **(4) Activity oriented leadership**

This category differs greatly from the previous ones, even if its international access modalities are not specific (industrial or sale subsidiaries, milk collection). It includes co-operatives that chose a leadership strategy based on a defined activity where an international dimension is required (critical activity threshold, market power, access to resources, etc.). That strategy does not preclude keeping more traditional activities, possibly with their own internationalisation approaches (e.g., exports).

The strategic priority of French group Eurial Poitouaine is to develop its goat milk processing activities on the European scale and take the leadership of the sector. The group developed industrial, commercial and raw material procurement activities in Andalusia (the first goat-breeding region in Europe) in partnership with three local co-operatives. Eurial Poitouaine is following there a triple strategy of additional procurement for its French processing plants (about 1/3 of its French collection), local goat cheese production and development of a 100% goat milk cheese market in Spain.

Belgomilk, to a lesser extent, can fall in the same category through its ice cream activities. This priority development axis, thanks to its Ysco subsidiary, ensures 20% of the group's turnover. Eighty-seven per cent of that production is exported within Europe, where it ranks among the leaders of private label products manufacturers. Ysco currently operates in Belgium, the Netherlands and France.

### **(5) Extending the domestic market to Europe**

Co-operatives in that group have engaged in ambitious cross-border strategies which consist in taking positions on neighbouring European markets whose geographic and economic characteristics are such that they can be assimilated to extensions of their domestic market.

The geographic areas covered (industrially, commercially and procurement) are included in a global strategy aimed at a high level of business rationalisation, especially in the industrial domain where plants no longer match the local market requirements but are more specially designed to fit with the company's more global policy.

There are two approaches according to the degree of reference to the co-operative model.

(5<sub>1</sub>) - ... Co-operatives in this category engaged in that strategy by exporting their co-operative organisation model. They aim at creating European co-operatives with members from countries with similar rights and duties.

That approach is best characterised by Dutch co-operative Campina. For twenty years it has followed an ambitious external growth strategy on Dutch territory and abroad alike. The Belgian and German markets in particular have been the focus of its attention, where an original policy of foreign producer integration has been applied. It now ensures 37% of its turnover in Germany, 30% in the Netherlands and 7% in Belgium.

In Germany, it conducted a dual strategy: acquisition of, or capital sharing with dairy companies; partnerships, for instance with the Milchwerke Köln Wuppertal (MKW) co-operative. That partnership gave rise to an original setup in 2001, when MKW was integrated as a special member of Campina. The same deal was cut with the producers of Belgian co-operative De Verbroedering.

Austrian Berglandmilch (alliance in 1999 with Bavarian co-operative Rottaler Milchwerk) and German Milchunion Hocheifel (MUH) are also part of this category. They particularly developed cross-border milk collection from producers who also are their members.



capacity to raise the necessary financial and organisational resources (financial engineering, industrial and financial partnerships, etc.).

All in all, this analysis raises two issues relating to the degree of resource control on the one hand, and to the valorisation of co-operative experience (identity) within those strategies, on the other hand.

The first issue refers in particular to the problem of resource sharing and mutualisation. Partnerships are restructuring co-operative strategies. They make up for structural deficiencies and help provide a leverage effect on resources (Ruffio et al., 2001). They play a crucial role in accompanying co-operative internationalisation. Deeper analysis of the alliance portfolios and fully-owned subsidiaries of 14 of the dairy co-operatives analysed reveals different practices:

- Co-operatives which widely use alliances to prop up their international ventures are already the most internationalised. These partnerships pertain mainly to an outside of Europe commercial rationale and rarely result in joint companies. They are established with partners selected outside of the co-operative sphere. Fully-owned subsidiaries abroad pertain to an industrial rationale within Europe.
- Other companies display a more balanced profile with a mix of alliances and fully-owned subsidiaries. Partnerships are signed mainly with partners from the co-operative world. They are restricted to the European level and their vocation is mainly commercial and industrial. Subsidiaries are widely practised for processing out of Europe.
- The co-operatives which are less committed to international business and favour the European dimension prefer strong alliances (joint companies) with partners not necessarily belonging to the co-operative world.
- Lastly, little internationalised co-operatives with no foreign subsidiaries sign agreements mainly with other European co-operatives for raw material procurement.

Regarding the second issue, the analysis shows that little reference is made to the co-operative model in those strategies and that most identified approaches pertain to strategies or modalities shared with IOFs. The co-operative identity and organisational assets are hardly used in the international context. The only exception involves the co-operative strategy to European development as an extension of domestic markets (group 5.a) with the prospect to create Transeuropean co-operatives with foreign members.

The raw material rationale of group 1b is also a co-operative specificity because it follows the classic model of bargaining co-operatives designed for collective organisation of producers to influence the market structure and behaviour of buyers and/or suppliers. In contrast, groups 2 and 3 by nature rule out that possibility as long as options are open for group 4 or even 6.

Nevertheless, Transeuropean co-operatives are being established and various organisational models have been identified, which reveal a gradual evolution towards full integration of producers from different countries (Guillouzo and Ruffio, 2003). That ongoing reality gives substance to the European Co-operative Society statute project drafted by the European Commission and which will undoubtedly lead to a



International Journal of Co-operative Management

Table 2: Main dair co-operatives' international strategies

	1	1	2	2	3	4	5	5	
	Buying	Supplying	Basic product	Labelled products	Franchise		Co-operative strategy	Group/subsidiary	
Area concerned	Frontier zone	Frontier zone	Europe/world	Europe/world	World	Europe	Frontier zone	Frontier zone	World
Type of products	Raw milk	Raw milk	Basic products	Basic products	Basic products	Basic products	Basic products	Basic products	Basics and Ingredients
Industrial subsidiaries abroad	--			--		++	++	++	+++
Sales subsidiaries abroad		--	++	++	+	++	++	++	+++
Quantitative raw milk resource	--	++	++			-			
Qualitative raw milk resource	-	+				-			
Extent of product portfolio		-	+		+		++	++	++
Product quality			++	++	+	+	++	++	+
Product price			++			+			+
Industrial capacities	++	--	++				+	+	+
Financial resources					-		-	+	++
Brand			+		++	+	++	++	+
Collective quality signs (protected labels)				++					
Technical knowledge				++	++	++	++	++	++
R & D capacities			+		+	+	+	+	++
National market potential	++	-	--	-					
Foreign market potential			++	+	+	++	+	+	++
Organisational asset	+			+	++		++		+
Co-operative identity		+					++		
Exemples	Granarolo (I)	Mainly small coops (E, D, Au)							

## Abstract

---

This paper presents a synthesis of the findings of a series of studies analysing the practices of alliances in agri-food co-operatives in western France in the 1990s. It presents the main characteristics of the co-operative alliance strategies and analyse the challenges and limits of such strategies. More than 130 agreements have been studied on the basis of interviews with management of the co-operatives.

The study shows that strategic alliances closely structure the course of development of agri-food co-operatives. Alliances are a way to adapt to the reality of markets and to competitive conditions. It also demonstrates that the behaviour of the co-operatives may vary a lot in that respect.

A comparison with the food industry in general emphasises certain features of co-operative practices (solidarity, proximity, parity and polarity). Systematic







The networks of alliances analysed do not always enjoy and do not always implement all the right conditions for creating a competitive advantage in the market. The wealth of literature on this (Gomes-Casseres, 1994; Hamel and Prahalad, 1994) shows the need to comply with certain conditions, which is not always the case in agricultural co-operatives:

- to associate different types of actors able to perform industrial, financial, service or commercial functions in a complementary way,
- to rely on relationships of trust, solidarity and strategic coordination around a few "leader firms" in their sphere,
- to identify complementary skills and promote innovation.

### **Limitations and challenges of alliances**

Alliances are a way for co-operatives to adapt to the reality of markets and to competitive conditions. However, systematic resort to these practices raises the question of the limitations of these choices and their consequences for the operation of firms.

#### ***The inadequate enhanced development potential of alliances***

Alliances are an effective lever for attaining economies of scale, for acquiring a critical mass on certain markets, for making big investments in industrial plants or



centre and its operational units do not lead to a loosening of the social commitments to its members. The multiplication of statuses for people within an organisation (which is the case in such alliance networks) makes for inequality and destroys solidarity. Conversely, alliance logic may be an opportunity to implement "social benchmarking" in the sense of a transfer of good practices from one partner to another.

The capacity to implement agreements is therefore a strategic potential for the firm. Some co-operatives have managed to benefit from it while others have failed in achieving such policies. It is difficult therefore to establish a strict relationship between the practice of alliances and its translation in terms of competitive advantage and performance, thus reflecting a form of causal ambiguity in the sense of Reed & Filippi (1990).



---

### *Books*

Galle R. (1997), The international co-operative as a partnership : legal aspects, in : Nilsson J., Van Dijk G., *Strategies and structures in the agro-food industries*,

<sup>6</sup>In the 10-year period 1990–1999, 127 restructuring operations were counted in Brittany co-operatives, 54 of which were alliances (43 per cent) (source: Annual reports on business restructuring, Brittany Regional Chamber of Agriculture).

<sup>7</sup>An alliance portfolio is a set of agreements forged by a firm over a period of time. This concept emerged with the development of modern finance and has recently been extended to the spheres of technology and skills.

<sup>8</sup>The meat industry (e.g. poultry) is a good example in western France where co-operatives have often joined forces to effect drastic industrial restructuring.

<sup>9</sup>Some 58 per cent of co-operatives' partners in the study sample are SMEs, 72 per cent of which are IOFs.

<sup>10</sup>French co-operatives are subject to the principle of territoriality, requiring them to operate within a given geographical area.

<sup>11</sup>Some 76 per cent of the alliances studied were bilateral. The figure is 84 per cent for the French food industry as a whole.

<sup>12</sup>Historically co-operatives in western France developed through the formation of a territorial monopoly to offer their members all the services required by their activity.

<sup>13</sup>An illustration is the introduction and alignment of internal transfer prices on "market price" references for the needs of intra-alliance and intra-group transactions. Remember this is judged an effective way to combat rising management costs of these structures when managers' time is taken up increasingly by adjustment of objectives, distribution of tasks, negotiation and conflict resolution.



The Department of Food Business and Development, in association with the Centre for Co-operative Studies at University College Cork offers a Higher Diploma/MSc in Co-operative Organisation, Food Marketing and Rural Development to graduates to equip them with the organisational and marketing skills they will need to make innovative contributions to the development of local economies and community-based food and small businesses in Ireland and overseas.

If you are interested in using your degree while working at the cutting edge of community, organisational and business development then this may be the course for you. For further information please contact one of the following:

Dr. Michael Ward or Olive McCarthy, Dept of Food Business and Development, University College Cork

Tel: 021 4902570 Email: [foodbusiness@ucc.ie](mailto:foodbusiness@ucc.ie)

or Mary Murphy, Postgraduate Admissions, University College Cork

Tel: 021 4902876/4902645 Email: [mary.murphy@ucc.ie](mailto:mary.murphy@ucc.ie)

### Abstract

---

The purpose of this study is to identify what factors influence hog-producing farmers in their choice between a co-operative and an investor-owned slaughterhouse. The study is based on social psychological theories. The empirical basis consists of qualitative interviews with 13 farmers in Sweden. The most important factor is the price that the slaughterhouse pays for the pigs. Also personal relations between different farmers as well as between the farmer and the slaughterhouse's officials are important. The members of the co-operative slaughterhouse do not feel very much solidarity with their co-operative.

### words

---

Agricultural Co-operative, Slaughterhouse, Social Psychology, Solidarity

### Introduction

---







the view of others (Festinger, 1954 cited in Baron & Byrne, 2000, p. 123). If the individual's view is the same, he will assume that the others' ideas and attitudes are correct. This process often means that the individual changes his attitudes to becoming more like others. As persons, whom the individual respects, speaks positively about a product that he has never tried, the chance is higher that he gets a positive attitude towards it (Baron & Byrne, 2000, p. 123).

When a farmer speaks to a neighbour, whom he respects, this neighbour's positive statements about his slaughterhouse probably influence the farmer's attitude. The probability that the farmer switches to this slaughterhouse increases as a result of this social comparison. On the other hand, if the farmer talks to a representative of the slaughterhouse and gets a positive or negative impression, his attitude is changed through *social learning*, which is learning based on associations.

A *reference group* is a selection of *significant others*, to whom the individual compares his behaviour. Significant others are individuals, chosen from a larger group and whose values and reactions are more important than those of others. *Significant others* establish the norms of the individual's behaviour and reward or punish the individual's actions. A normative reference group may be the family, friends, colleagues, or neighbours. The individual chooses if he likes to be a part of the reference group, and thereby chooses if to adopt the norms (Bauman, 1990, s.42). The reference group influences the individual through socialisation, development of self-image, and norms. The reference group forces the individual to adopt a behavioural pattern similar to the group. The individual's motive as well as decisions can change through collection of information, but these processes are closely related to the individual's group affiliation and self-image (Engel & Blackwell, 1982).

### Social influence within groups of hog-producing farmers

One farmer phoned another one, who delivers to an investor-owned slaughterhouse, before he switched from the co-operative to the investor-owned slaughterhouse. Another farmer asked his neighbour for advice before switching. This neighbour had previously teased the farmer for not switching. The farmer saw his neighbour as a businessman, but regarded himself as a person involved in the co-operative movement. Slowly the farmer started to believe that the investor-owned slaughterhouse was a

better option, since it paid more for the pigs, and started to search for arguments for the change, which he perceived as opposite to his values.

Individuals have norms that they get through relations with others, but there are differences between the inclinations to follow the norms within the group. Norms are easiest explained as expectations of the group concerning the rules of behaviour for the members.

*In-group*, and *out-group*, are terms for "we" and "they", which stands for two groups of people but also two different attitudes. "We" is the group that the individual belongs to, while "they" is a group that the individual does not like to or cannot belong to. For the in-group, the individual feels confidence and security, while he feels suspicion, aversion, and fear for the out-group (Bauman, 1990, s.42). If the suppliers to a slaughter co-operative feel solidarity, they may form an in-group.

*Social comparison* is the process through which the individual tries to find reasons to other individual's behaviour and to get knowledge about their characteristics and tendencies. Other individuals may be ascribed characteristics that would cause their behaviour. *Normative influence* is the tendency to attach less importance to a potential cause to behaviour when there are alternative causes. The *self-referent influence* means that the individual attaches more importance to a reason if the behaviour remains even though there are factors opposing this behaviour (Baron & Byrne, 2000, p. 57).

*Social cognition* is the individual's way of interpreting, remembering, and using information about the social world (Baron & Byrne, 2000, p. 80). A *schema* helps the individual to understand the social information and influence the social cognition. The scheme influences the individual's cognitions through attention, interpretation, and recreation. The *selective attention* decides which information that the individual notices. Information that is not consistent with the scheme is ignored. The scheme also influence which information is *retrieved* from the memory. Since the scheme governs which social information that the individual notices and remembers, there is a risk that disorder is created in the understanding of the social world (Baron & Byrne, 2000, p. 83).

This might explain why some farmers, supplying to the co-operative won't switch slaughterhouse, even if the media reports that the investor-owned slaughterhouse offers higher prices for the pigs. The information is not consistent with the scheme that the

co-operative should offer the highest price and it is thereby ignored. One interesting result from the interviews is that suppliers to both the co-operative and the investor-owned slaughterhouses believe that they got a higher payment from the slaughterhouse they deliver to. This implies that some kind of social cognition is at work.

Table 4 below presents a summary of the above-mentioned factors, divided according to Hirschman's model of voice and exit.

## Discussion

When explaining why they have switched slaughterhouse, farmers usually state one single reason. That factor is, however, often just like the top of an iceberg. Most likely the farmers are discontented with many conditions.

Using voice in a co-operative society is often not sufficient for the members to change the upsetting circumstances, and so, they turn to exit. Many farmers

**Table 4. Social psychological explanation to the factors preventing and easing exit and voice**

	(In- and out-group)	(In- and out-group)
EXIT Prevent	<ul style="list-style-type: none"> <li>• Old age (Habitual behaviour)</li> <li>• Good genetic material (Not substitute)</li> <li>• Good piglet producers (Not substitute)</li> <li>• Professional business partner (Social cognition)</li> <li>• Satisfaction with the firms performance (Social cognition)</li> <li>• Ideology (Reference group, In- and out-group)</li> <li>• Long-term decision to use a slaughterhouse (Convenience)</li> <li>• Others' opinion (Social learning, reference group)</li> <li>• Convenience (Convenience)</li> <li>• I am an owner (In- and out-group)</li> </ul>	<ul style="list-style-type: none"> <li>• High direct payment for the pig (Social cognition)</li> <li>• Satisfaction with the firms performance (Social cognition)</li> <li>• Long-term decision to use a slaughterhouse (Convenience)</li> <li>• Fast pig growth (Not substitute)</li> </ul>
Ease	<ul style="list-style-type: none"> <li>• Low direct payment for the pig (Social cognition)</li> <li>• Always welcome back as a supplier – low risk (Convenience)</li> <li>• Dissatisfaction with the firms performance (Social cognition)</li> <li>• Way of protesting (Affective behaviour)</li> <li>• No economical security within the slaughterhouse (Social cognition)</li> </ul>	<ul style="list-style-type: none"> <li>• Maximize owner benefit (In- and out-group)</li> <li>• Incorrect classification (Social cognition)</li> <li>• Poor genetic material (Not substitute)</li> <li>• Fewer piglets (Not substitute)</li> <li>• Dissatisfaction with the firms performance (Social cognition)</li> <li>• I am not an owner (In- and out-group)</li> <li>• Easy to break/not have a contract (Convenience)</li> </ul>
VOICE Prevent	<ul style="list-style-type: none"> <li>• Too large and complex organisation (Social learning, Social cognition, convenience)</li> <li>• Slow decision-making (Convenience)</li> <li>• Wish for more personal information (Closer contact)</li> <li>• No commitment (Social learning, Attribution, reference group)</li> <li>• No changes within the organisation (Convenience, Social learning, Reference group)</li> </ul>	<ul style="list-style-type: none"> <li>• I am not an owner (In- and out-group)</li> <li>• Poor information (Closer contact)</li> </ul>
Ease	<ul style="list-style-type: none"> <li>• Good personal contact (Closer contact)</li> <li>• Skilled staff (Closer contact)</li> <li>• Are an owner (In- and out-group)</li> <li>• One member – one vote, gives smaller farmers the same influence as larger (Reference group, In- and out-group)</li> </ul>	<ul style="list-style-type: none"> <li>• More flexible organisation (Convenience, Social learning)</li> <li>• Fast responses (Convenience, Social learning)</li> <li>• Easy to make changes (Convenience, Social learning)</li> <li>• Closer to decision-makers (Closer contact)</li> <li>• Good personal contacts (Closer contact)</li> <li>• Skilled staff (Closer contact)</li> <li>• Larger producer have more influence (Reference group, In- and out-group)</li> </ul>

do not perceive that they can influence the slaughterhouse's decision. This is a severe problem for



# Co-operative slaughterhouses and food safety on pork<sup>15</sup>

Petri Ollila

## Abstract

The purpose of the paper is to identify how various institutional arrangements perform in reaching the desired outcomes in maintaining food safety and especially to find out if co-operatives have special characteristics. Institutional arrangements include external rules as well as organizations' internal rules and operating practices. This paper discusses co-operative slaughterhouses' role in the development of food safety during the last decade in Sweden and Finland.

Historically, co-operatives have been founded when imperfections in the market have appeared. This has also been the case in Nordic meat processing. Long before legislative actions for food safety, co-operative slaughterhouses developed quality programs for their member-producers that also included food safety measures.

In the development where the share company slaughterhouses have been able to tempt "better-than-average" pig producers as suppliers there is a danger that the "worse-than-average" producers concentrate into co-operative slaughterhouses. Usually the qualification applies also to food safety issues. Co-operative slaughterhouses must develop means to keep the large and most skilful farmers as their suppliers, even if the traditional "equal treatment" principle is challenged.

## Key words

Food Safety, Co-operatives, Marketing Systems, Transaction Costs

## Introduction

Food marketing systems become increasingly complex. It is impossible for a consumer in a purchase situation to determine whether a food item fulfils various criteria of food safety. It is also impossible for an individual actor in the system to determine the consequences of his or her behavior with respect to food safety. This is why society pays special attention to food safety questions through various institutional interventions. There is evidence that consumers are willing to pay more for safe food items (Baker 1999), but they also have an interest in governmental measures to increase food safety.

Increased attention to food safety is an issue in high-income countries as well as in less developed countries (Salay & Caswell 1998). Access to safe food is generally considered a fundamental right. Hence, various aspects of food safety are regularly being discussed. The discussion reached a peak when the BSE and the hoof and mouth disease were found in Europe in 2001. Later the spreading of avian influenza has become a serious food safety problem.

Agricultural co-operatives are the dominating organizational form in many countries' food systems. So, it is interesting to investigate whether co-operatives have any special features in relation to food safety. Co-operatives have a special relationship in transactions between farmer-members and the processing firm. This relationship may also affect food safety.

The purpose of the study is to theoretically explain how various institutional arrangements perform in reaching the desired outcomes concerning food safety, and specifically to identify if co-operatives have any special characteristics. Institutional arrangements include established external rules as well as organizations' internal rules and operating practices.

The theoretical tool of analysis is transaction cost theory. This theory explains the rationales behind various ways of organizing economic systems. The theoretical accounts are illustrated with empirical data, whereby the meat industries in Sweden and Finland provide the data. Comparisons are made between farmer co-operative slaughterhouses and investor-owned firms (IOFs) in these two countries during a ten-year period – 1992-2002.

The article is organized as follows: First, the transaction cost theory is presented as it applies to food safety, followed by some theoretically derived propositions about how co-operatives will perform in terms of food safety. Thereafter, the empirical study is presented as well as the findings. Then, data are analyzed and finally, conclusions are drawn.

## Transaction costs and food safety

Two kinds of human interdependence having an effect on food safety can be found:

- *Prevention costs*. The less risk is allowed the higher are the costs of prevention. Without paying and with

good luck, the result may be the same. However, if the hazard becomes reality, the cost may be enormous.

- Interacting parties themselves may act as intermediaries for contamination. The cost of monitoring is an alternative for realized contamination.

In both cases the parties influenced are often other people than those who interact in the process. Thus, economic interdependence becomes widespread. This means that food safety becomes a general issue having an effect on the entire society. Another set of transaction costs is involved if the source of the hazard is difficult to trace afterwards. This means that preventive measures become crucial.

Williamson (1975) presents two modes of transactions: transaction in the market and transactions internally within an organization (hierarchy). The issue of the food safety systems' design becomes similar to the design of governance structure of a marketing system. In both cases the question concerns to what extent it is possible to rely on the market, and where "hierarchical" solutions are needed.

As in other problems of exchange, the market solution would, in principle, be the most transaction cost efficient solution also in achieving food safety. Each party interacting with the system has an incentive to act towards improved food safety. Those people actually take food safety into account in all the processes and transactions. However, considering the assumptions concerning human behavior – bounded rationality and opportunism (Williamson 1975) – the system does not always lead to an acceptable solution. Bounded rationality implies that persons do not always recognize or know what they should do. Opportunistic behavior means that some actors would be free-riders leaving the cost of not preventing food hazards to other actors in the system.

Thus, similar to the problem of marketing system design, a market solution would not always bring the best possible solution, so the market outcome needs safeguards through interventions. The market solution is replaced by governmental rules or administrative actions such as meat inspectors.

### Co-operatives as coordinating institutions

Co-operatives use, in a way, both markets and hierarchies at the same time. They are organizations,

which have internalized transactions between the members and the organization. The members are, however, independent of each other and they can also make market transactions. Thus, the farmers can reduce their transaction costs and uncertainty through the co-operative and at the same time maintain entrepreneurial incentives through the market.

These notions raise several questions. Can the co-operative characteristics be utilized in the improvement of food safety? For instance, do these characteristics provide means for better or cheaper food safety through collaboration and mutual trust, i.e. lower transaction costs? For instance, a slaughterhouse may be hesitant to invest in farmer-members' safety measures or training because there is a risk that a farmer switches to a competing slaughterhouse, and so the investment is wasted. Will it be safer to invest in farmer-members who may be expected to be more loyal than an independent farmer? Are the members more motivated in food safety issues because the benefit or loss will be returned to the same members?

Based on this theoretical reasoning, one may expect agricultural co-operatives to be different from investor-owned processing firms (IOFs) when it comes to handling food safety issues. The main argument is that the specific co-operative characteristics place a positive role in achieving good safety. Next, this study investigates whether there is empirical evidence for this argument.

### Research setting

Food safety is a multidimensional matter. It is related to food quality as well as ethical issues. Because the purpose of this study is to demonstrate institutional arrangements it is not necessary to examine factors affecting the food safety in its full width. It suffices to identify a few types of food hazards that have the potential of being explained by various institutional settings.

Three factors affecting the food safety of pork are selected: Salmonellosis, Trichina parasites, and residues of medical treatments. The first two food safety hazards may result from lacking coordination in the production system. Such a system consists of a large number of activities. To conduct an analysis, one has to identify the system's components. This is done through examining interfaces between the activities.

By technically separable interfaces is meant such individual tasks between which, at least in principle, there could be a market transaction. Division of a sub-sector into all its technically separable interfaces would

result in an unnecessarily complex pattern. Williamson (1981, p. 1544) states that although more descriptive detail than is associated with neoclassical analysis is needed for this kind of analysis, even "a relatively crude assessment will often suffice".

A general simplified presentation of technically separable interfaces in the pork marketing system is presented in Figure 1. The lines represent single tasks. Critical transactions are presented as numbers.

A combination of piglets, feed, water, premises and work produce a hog. Piglets may be grown either by the same farmer, or they may be sold to another farmer who is specialized in hog breeding (transaction 1). A hog needs, in addition to feed and water, premises and work to grow big enough to be slaughtered. During all its lifetime the hog may need medication. A full-grown hog leaves the farm (transaction 2) and is transported to the slaughterhouse (transaction 3). After slaughtering the hog is transmitted to cleaning and cutting (transaction 4). After cutting various pieces are moved (transaction 4) to the stage where they are packed and stored. Depending on the purpose, the pork is then either further processed, delivered to retail stores, restaurants or other large-scale kitchens, or directly to the consumers (transaction 6).

Thus, the pork marketing system is divided into four phases: production, slaughtering, processing and delivery. The combination of transaction modes varies from one system to the other. Piglet production and hog breeding may either take place in the same organization, or the piglets may be sold to another breeder. Slaughtering, cleaning and cutting are usually conducted in the same plant. Further processing may be done either by the same unit, or it may take place elsewhere. After the delivery some processing may occur at retail outlets, restaurants and large-scale

kitchens. A trend is that those units utilize increasingly semi-prepared food items.

The key transaction with respect to co-operatives is the transaction between the producer and the slaughterhouse (transaction 3). However, the co-operative has influence on earlier transactions as well. Closer to the consumption stage the influence of a slaughtering co-operative diminishes.

## Data collection

The study includes a total of six cases. In each country, Sweden and Finland, three pork marketing systems having various types of slaughterhouses are analyzed; small non-co-operatives (Spånga Gårdsslakteri, S; Maatilaliha Meronen, FI), large non-co-operatives (Skövde Slakterier, S; Oy Snellman Ab, FI) and large co-operatives (Swedish Meats, S; HK Ruokatalo, FI). Small co-operative slaughterhouses do not exist in neither Sweden nor Finland.

The information is gathered through interviews with representatives of the organizations as well as other relevant THII THII TH5 Tw(k[(The ons nhes. )TjEtiond5 w )Tj0.ose

that of IOFs. This development is observed in the case of HK Ruokatalo, one of the leading meat processing companies in Finland and the Baltic countries. A co-operative society controls 37 per cent of the shares and 87 per cent of the votes of HK Ruokatalo. The rest of the shares are traded in Helsinki Stock Exchange. The co-operative also owns another share company LSO



Food safety measures within slaughterhouses are a combination of governmental measures and measures conducted by the slaughterhouse. A significant organizational innovation is the development of the own-control system where food safety measures are divided by the governmental inspectors and the slaughterhouse. Activities are delegated to those who have the best position to conduct them (the hierarchical decomposition principle, Williamson 1981). The data does not show any differences in food safety practices inside co-operative and in non-co-operative slaughterhouses.

The mechanisms discussed above have had an effect on the slaughtering industry both in Sweden and in Finland. Before the EU membership in 1995 the co-operative slaughterhouses were the leading parties in developing measures for improved food safety. Thus since then the EU has taken much of that role. This has contributed to significant changes in the behavior and organization of slaughtering co-operatives. The attributes of co-operatives, including the quality programs, have contributed to the general development of food safety in both countries.

## Conclusions

The role and activities of co-operatives, though they remain strong, have evolved. Co-operatives still provide services for their members. Piglet transmitting and extensive quality programs are typical activities of co-operative slaughterhouses although other slaughterhouses have adopted such activities. This development has benefited food safety. Thus, co-operatives have not just improved food safety within their operational environment but also contributed to the improvement of food safety in the rest of the industry. The relative role of co-operatives has, however, diminished when the performance has improved.

The number of co-operative slaughterhouses has fallen as the co-operatives change their roles. One example is HK Ruokatalo, which is now a holding company for the slaughtering and processing IOF. This development indicates the flexibility and ability of co-operatives to change their form between markets and hierarchies according to changes in the market situation.

- Coming back to the two kinds of human interdependence presented in Section 2, the following conclusions can be drawn:
- The cost of preventing the hazard vs. the cost of not preventing: compared to a supplier delivering

to an IOF it is more costly for a co-operative member not to prevent the hazard. If the hazard is realized the members bear the cost. In transactions between members and the co-operative slaughterhouse there is an emphasized attention to food safety. However, differences in activities can be found in different slaughterhouses.

Σ The cost of preventing human beings from contaminating the food vs. effects of contamination: what concerns contamination at the farmer level, a co-operative may have an advantage. However, at the slaughterhouse level there is no difference between a co-operative and an IOF. Another observation is that the monitoring cost per kg of meat in small-scale slaughterhouses is significant compared to large-scale slaughterhouses.

In both aspects of human interdependence some farmer-members regard the co-operative slaughterhouse's image as producer of safe food as a transaction specific asset. However, the study could not identify a clear difference relative to the suppliers to IOF's. This indicates that this potential asset is not exploited enough by co-operative slaughterhouses.

In the development where the IOF slaughterhouses have been able to attract "better-than-average" suppliers, the "worse-than-average" farmers may be concentrated to the co-operative slaughterhouses. Usually the qualification applies also to food safety issues. Co-operative slaughterhouses must further develop means to keep the large and most skilful farmers as their suppliers. This must happen even at the cost of the traditional "equal treatment" principle. That principle must be changed into a "fair treatment" principle. The membership must accept that the co-operative cannot remain in business without the larger farmers, which may require better conditions than smaller farmers.

## References

### Books

Hirschman, A.O. 1970, *Exit, Voice and Loyalty*, Harvard University Press.

Williamson, O.E. 1975, *Markets and Hierarchies, Analysis and Antitrust Implications*, Free Press, New York.

### Journals

Baker, G.A. 1999, Strategic Implications of Consumer Food Safety Preferences, *International Food and Agribusiness Management Review*, 1:4, 451-463.

Ollila, P. 1989, Coordination of supply and demand in the dairy marketing system – with special emphasis on the

potential role of farmer co-operatives as coordinating institutions. *Journal of Agricultural Sciences in Finland*, 61, 137-321.

Salay, E. and Caswell, J.A. 1998, Developments in Brazilian Food Safety Policy, *International Food and Agribusiness Management Review*, 1(2); 167-177.

Williamson, O.E. 1981, The Modern Corporation: Origins, Evolution, Attributes, *Journal of Economic Literature*, Vol. XIX, 1537-1568.

Footnotes

<sup>15</sup>This paper is based on the book Ollila, Petri, 2003, Food Safety in Pork – a Study about Food Safety in the Pork Marketing System. Report 151, Department of Economics, Swedish University of Agricultural Sciences, Uppsala, Sweden (178 pp.)

A prior version of this paper was presented at the conference “Vertical Markets and Co-operative Hierarchies: The Role of Co-operatives in the International Agri-Food Industry”, held in Chania, Crete, Greece, on 3-7 September 2004.



**NACO – National Association of Co-operative Officials**

NACO is a Management Association and an Independent Trades Union, representing managerial and professional grades within the United Kingdom Co-operative Movement. NACO has sole representational rights for managerial and professional staff in all UK consumer co-operative societies and within the Co-operative Insurance Society Limited.

The range of services available to members encompasses collective bargaining on pay rates and terms and conditions of employment, professional advice, legal advice and individual representation – always delivered by a full-time professional official of the Association. The Association also provides ancillary services including discounted products, educational seminars and residential conferences.

NACO has grown and developed to be a major and respected professional body representing the vast majority of managers and professionals in consumer co-operatives. The Association seeks to work in partnership with co-operative societies and the excellent relationships developed help us support members individually and collectively. The Association is now looking to expand upon its traditional base, and develop relationships with members in housing co-operatives, farming co-operatives and credit unions to name but a few.

**International Co-operative Links**

NACO also wishes to cross traditional barriers and share practices and experiences with similar minded bodies with links to the worldwide co-operative movement. In this respect, moves are in place to create an affiliate membership to allow fraternal organisations to develop links with NACO in the United Kingdom. Any parties interested in developing such a relationship should contact Lindsay Ewing, General Secretary or Neil Buist, Assistant General Secretary.

Contact details: Tel - 0161 494 8693 Fax – 0161 366 6800

E mail [lwe@nacoco-op.org](mailto:lwe@nacoco-op.org) or [ndb@nacoco-op.org](mailto:ndb@nacoco-op.org)

Iliopoulos, Constantine, *Property Rights Structure and Investment Incentives in Agricultural Co-operatives*. (286 pp.) PhD thesis from University of Missouri-Columbia, December 1988. Obtainable from UMI Company: <http://www.umi.com/umi/dissertations/> (UMI number 9924892).

Constantine Iliopoulos' doctoral dissertation investigates the hypothesis that the property rights structure affects the incentives of stakeholders to invest in a co-operative. Through analyses of the horizon problem, the portfolio problem and the free rider problem, the study tries to assess efficiencies and inefficiencies of the investment incentive structure of agricultural co-operatives.

The first part of the dissertation explains how the property rights structure evolved in agricultural co-operatives, states the objectives of the study, and reviews the development of theories that have been used in explaining co-operative firms. This part presents both neoclassical theories of the firm and new institutional economics as well as the property rights approach.

A comprehensive guide is given of the economic theories, most often used in analyzing co-operatives, and an explanation of how the theories are related to each other. Chapter 3 offers in detail a review of the vaguely defined property rights of co-operatives, especially in connection to expanding co-operatives, which need risk capital.

The author discusses the development of co-operatives and definitions used over the years. He notes that in the US court system and among US

New roles for co-operative organizations are the focus of this book, or rather new roles related to environmental management. The range of topics is wide, covering the development and justification of environmental co-operatives, the internal life and institutional setting of these, as well as case studies of environmental co-operatives.

Oftentimes, books including almost twenty contributions run the risk of being too broad and therefore difficult to follow. This is not the case here, mainly due to a very informative introductory chapter, including an overview of the book's structure. A key factor of this first chapter is a figure, depicting "The logic of institutional arrangements for agri-environmental co-ordination", summarizing the book's contents, helping the reader to see in what way the different topics treated in the following chapters relate to each other.

Slangen and Polman discuss reasons for developing environmental co-operatives, mentioning market failure, asset specificity, and lack of property rights, leading to a discussion concerning governance

# Restructuring Agricultural Cooperatives

Hendrikse, George W. J., ed.. *Erasmus Universiteit, Rotterdam, 2004. ISBN: 90-5892-057-7 (140 pp.)*

The book presents six articles concerning current challenges for agricultural co-operatives, such as increased membership heterogeneity and changed market conditions. The theme of the book is governance structures.

Jos Bijman and George Hendrikse investigate why innovative growers leave the major Dutch marketing co-operative in the fruit and vegetable industry, VTN, to start new co-operatives, and how this affects the VTN. As the market demands differentiated products, the growers benefit from growing products of specific qualities. They are better off in homogeneous organisations, less hampered by conflicting interests. Small, specialised co-operatives give incentives to invest in quality and product innovation. However, the large, heterogeneous VNT benefits from economies of scope and has the ability to offer retailers a variety of goods, off-setting the latter's market leverage.

George Hendrikse and Aswin van Oijen discuss diversification and corporate governance. The authors compare diversification in co-operatives and stock-listed corporations, finding that corporations are more differentiated than co-operatives. Their diversification is more extensive in both related and unrelated industries. It is more likely that co-operatives differentiated in unrelated industries than in related. Co-operatives are less prone to invest in related industries since this brings difficulties in distributing the revenues from, for instance, logistic advantages. Unrelated diversification also involves less risk through diversification of the portfolio. Members of a homogeneous co-operative do not want their captive to invest in other industries. They prefer investments in their own farm enterprises. Hence, it is more heterogeneous co-operatives that diversify. This might increase market power since the co-operative is able to offer a wider range of products to the retailers.

Michael Cook, Constantine Iliopoulos, and Fabio Chaddad review the progress in co-operative theory since 1990. The authors identify seven trends. For instance that coalition and nexus approaches have become widely used, particularly to deal with heterogeneity, and heterogeneity has become an important topic. Through agency theory, the importance of management has been enhanced. Principal-agent relationships are essential for the co-

operative decision-making process. Agency theory, along with game theory and theories concerning transaction costs and incomplete contracts, have facilitated studies of corporate governance, which have become increasingly important. There has been a paradigmatic shift. Formal neoclassical models have been replaced by contractual and coalition schools.

George Hendrikse and Cees Veerman analyse control rights and frequency of board meetings and how these two aspects influence members' willingness to invest in the co-operative. Agricultural co-operatives must adapt to new market conditions, which means that the relationship with the members, as well as the management, must change.

Except for the above-mentioned papers, the book includes E. van Heck, "Innovative Electronic Reverse Auction in Demand Chains: Prototype and Experiments in the Fruit Industry"; and B. Krug, "Commons, Collectives and Corporations. The Development and Change in China's Rural Sector".

In conclusion, this is an interesting book containing well-written articles especially for those interested in agricultural co-operatives.

Lena Westerlund Lind

Department of Economics, Swedish University of Agricultural Science

P.O. Box 7013, SE-750 07 UPPSALA

SWEDEN



University of  
Leicester

MAAGMINT

MAAGMINT

MAAGMINT

## *A pioneering degree for today's pioneers*

Programmes and other Services:

- Postgraduate Co-operative Management Studies by Distance Learning, at Certificate, Diploma and Masters levels
- Access course for non-graduates
- Individually supervised M.Phil. and Ph.D. programmes focusing upon co-operative and other membership based organisations
- Provision of management and organisational development seminars for membership based organisations
- Collaborating in partnership with membership based organisations in the development and delivery of training, development and research programmes

*For applications or further enquiries please contact:*

MAAGMINT

MAAGMINT

+44 (0) 11 252 5511 or +44 (0) 11 252 5515

MAAGMINT



# NEW HARMONY

All authors with ideas and analyses on the role of co-operatives in the 21st century, or monographs which focus relationships between co-operatives and the wider economy, or the role of co-operatives in sustainable development, or the role of co-operatives in the social economy, or the role of co-operatives in the social economy, are welcome.

## *Harmony Project Co-operative*

New Harmony Project  
14, Chancery Lane, London, EC4A 3DF,  
Charterhouse Square, London, EC1A 4DF,  
London, EC1A 4DF, UK

Phone: +44 (0)20 7412 1092

[info@fsb.co.uk](mailto:info@fsb.co.uk)





# Sponsorship of the International Journal of Co-operative Management

Individuals, associations and organisations with special interest in the purposes of this journal are invited to sponsor its continued development through making a donation of £500 or more to the journal's operating funds or to become a Foundation Sponsor with a donation of £2000 or more.

Cheques should be made payable to the University of Leicester and addressed to the Editor.

## List of sponsors

---

### ORGANISATIONS

- 1. The Co-operative Group (Foundation sponsor)
- 2. The Co-operative Food (Foundation sponsor)
- 3. The Co-operative Society (Foundation sponsor)

### INDIVIDUAL

- 1. The Co-operative Society (Foundation sponsor)