Repositioning Agricultural Cooperatives in the North and the South: Where do the Twain meet?

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Outline of the presentation

- Motives for economic cooperation
- Trends in environment
- New functions of cooperatives
- New structure of cooperatives
  - Financial structure
  - Corporate governance structure
- Membership heterogeneity / member commitment
<table>
<thead>
<tr>
<th>Type</th>
<th>Main function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer union</td>
<td>Interest representation</td>
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<tr>
<td>Producers’ Association</td>
<td>Bargaining</td>
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<td></td>
<td>Exchanging experience</td>
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<td>Cooperative</td>
<td>Collective firm</td>
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### Motives for economic cooperation

<table>
<thead>
<tr>
<th>Motives</th>
<th>Examples</th>
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<tr>
<td>Countervailing power</td>
<td>Bargaining association</td>
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<td>Economies of scale</td>
<td>Processing cooperative</td>
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<td>Sharing of risk</td>
<td>Marketing coop with pool</td>
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<td>Reduction of transaction costs</td>
<td>Cooperative auction</td>
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<td>Access to resources</td>
<td>Credit cooperative</td>
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<td>Access to markets</td>
<td>Marketing cooperative</td>
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<td>Product innovation / quality control</td>
<td>Marketing cooperative</td>
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Trends in legal and economic environment

- Liberalisation of markets
- Changing consumer demands (quality, safety)
- Tight legislation on food safety
- Changes in technology
- Retail dominance
Cooperatives in agrifood chains

- Commodity driven → customer driver
- Marketing channel become supply chain
New functions for cooperatives

- Horizontal AND vertical coordination
- Facilitate information exchange between customer and producer
- Quality assurance
- Innovation
- Specific marketing programs
Changing function → Changing structure

- Non cooperative models of collaboration
- New financial structures
- Re-allocation of property rights
- Changes of corporate governance
Re-allocation of property rights

- Property rights = income rights and control rights
- Chaddad and Cook (2004) present a typology of cooperative models:
  - Traditional coop
  - Member investor coop
  - New Generation Coop
  - Coop with public subsidiary
  - IOF
Investment related efficiency problems

Problems:
- Free rider problem
- Horizon problem
- Portfolio problem

Solutions:
- Closed membership
- Marketing agreements
- Transferable and appreciable delivery rights
Changes in financial structure

- Individualisation of equity capital
- Inviting outside investors

But:
- How far can you go with outside investors without producers losing control?
Changes in corporate governance

- Shift of authority from decentral (farmers) to central (cooperative)
- Shift from board of directors to board of management (= from farmers to professionals)
- Inviting outside experts (in supervisory board)
<table>
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<th>Effect of heterogeneous membership</th>
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<tr>
<td>Homogeneous</td>
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<td>Decision making costs</td>
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<td>Influence costs</td>
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<td>Agency costs</td>
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<td>Commitment</td>
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<td>Coordination member – coop</td>
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<td>Strategy</td>
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<td>Incentives to provide equity capital</td>
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Member commitment

- Member commitment is declining

- Reduced commitment is a result of perceived lack of connection between member and coop, combined with the inability of the coop to differentiate itself from non-coop competitors

- Reduced commitment may be a problem for the cooperative
Internationalization of coops

- Coops traditionally are regionally oriented
- Federated coops may be needed for international expansion
- Internationalization is risky investment
- Coops may have advantages in setting up chain quality assurance
- International mergers of coops encounters many difficulties
Conclusion

- General trend towards entrepreneurial coops
- Cooperatives can play major role in (international) agrifood chain
- Customer orientation requires centralization of control rights
- But:
  - Institutional context continues to be important
  - In developing and transition context, third party assistance may be needed to facilitate transformation