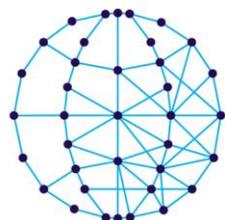




Cooperatives: The power to Act
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Agricultural Cooperatives in the Netherlands: Key Success Factors

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Abstract

The paper argues that the ongoing success of agricultural cooperatives in the Netherlands can be explained by the combination of five factors. First, the Netherlands has an enabling cooperative legislation. Second, cooperatives in the Netherlands have been able to maintain effective member control through innovations in internal governance. Third, membership heterogeneity has been kept low, despite growth and internationalization of agricultural cooperatives. Fourth, Dutch cooperatives have been pragmatic in establishing and dismantling federative cooperative structures. Fifth, cooperatives have chosen explicit strategies as to their position in the food chain. This paper is based on a review of academic and professional literature. The insights from the experiences of Dutch agricultural cooperatives may inspire cooperative leaders in other countries and sectors to seek similar enabling conditions and pursue similar strategies.

Résumé

Cet article avance que le succès soutenu des coopératives agricoles aux Pays-Bas peut se justifier par une combinaison de cinq facteurs. Premièrement, les Pays-Bas sont dotés d'une législation facilitante sur les coopératives. Deuxièmement, les coopératives des Pays-Bas parviennent à conserver un contrôle efficace de leurs membres par des innovations touchant la gouvernance interne. Troisièmement, l'hétérogénéité des membres a été contenue, en dépit de la croissance et de l'internationalisation des coopératives agricoles. Quatrièmement, les coopératives hollandaises ont été pragmatiques en établissant puis en démantelant leurs structures coopératives fédératives. Cinquièmement, les coopératives ont choisi des stratégies explicites en ce qui concerne leur position dans la chaîne alimentaire. Ce papier repose sur une revue de littérature scientifique et professionnelle. L'éclairage qu'offrent les expériences des coopératives agricoles hollandaises pourrait inciter les dirigeants de coopératives dans d'autres pays et secteurs à rechercher des conditions facilitantes analogues et à mettre en œuvre des stratégies semblables.

Resumen

El documento sostiene que el éxito continuo de las cooperativas agrícolas en los Países Bajos puede explicarse gracias a una combinación de cinco factores. Primero, los Países Bajos cuentan con legislación que propicia el cooperativismo. Segundo, las cooperativas de los Países Bajos han logrado mantener un control eficaz de sus miembros a través de innovaciones en materia de gobernanza interna. Tercero, la heterogeneidad de los miembros se ha mantenido en un nivel bajo, a pesar del crecimiento y de la internacionalización de las cooperativas agrícolas. Cuarto, las cooperativas holandesas han sido pragmáticas en el establecimiento y el desmantelamiento de estructuras cooperativas federativas. Quinto, las cooperativas seleccionaron estrategias explícitas respecto de su posición en la cadena alimenticia. El documento se basa en un análisis de la literatura académica y profesional. Las observaciones surgidas de las experiencias de las cooperativas agrícolas holandesas pueden inspirar a los líderes cooperativos de otros países y de otros sectores a buscar condiciones propicias similares y a seguir estrategias similares.

Introduction

The biggest dilemma for a cooperative (...) is that change itself is bound to **increase tensions among its members**. There are two reasons for this. One is that change upsets established mechanisms for decision making and cooperation. The other is that change tends to cause preferences to diverge, which (...) is problematic for ownership. (Holstrom, 1999)

The Netherlands has a rich tradition of cooperative development in agriculture. Over the years, cooperatives have been able to successfully adjust to changes in policies, market conditions and technologies. While new strategies have been developed for new markets and new product categories, cooperatives have remained remarkably stable in their market shares over the last 50 years. From 2000 to 2010, Bijman (2012) showed even a slight increase of market share for all agricultural cooperatives as a whole.

While the number of farmers has gradually declined over the last 50 years, agricultural production has remained stable. In 2015 only 60,000 farmers remained, while the total added value generated by agriculture, food processing and distribution continues to be 50 billion euro. Cooperatives take responsibility for a major share of this added value.

Figure 1 shows the joint market share of all (marketing) cooperatives in the Netherlands, in comparison with other EU countries. While the EU average is 40%, the market share of the Dutch cooperatives is close to 70%. Table 1 shows the main agricultural sectors in which cooperatives play a dominant role: dairy, sugar and potatoes, animal breeding, fruit & vegetables and flowers.

Figure 1. Market shares of agricultural cooperatives

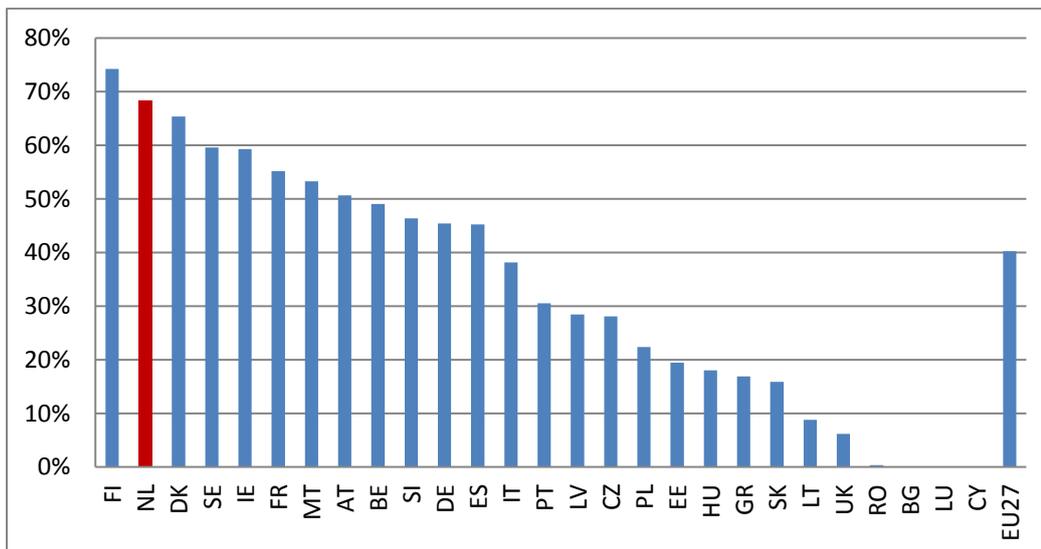


Table 1. Key figures agricultural cooperatives (2015)

	Number of Cooperatives	Market Share (%; 2010)	Members (only in NL)	Employees (fte)
Sugar	2	100	11000	2200
Dairy (milk processing)	5	86	1600	21500
Fruit & Vegetables	15	95	2500	2600
Potato starch	1	100	2500	1300
Seed and Ware Potatoes	6	N/A	1500	200
Mushrooms	2	>80	210	230
Flowers	2	95	4800	2900
Pig breeding	1	85	1750	500
Cattle breeding	1	85	25500	1300
Animal feed	13	55	30000	6200

Sources: Coöperatie, Vol. 77, No. 622, March 2015; market share: Bijman et al., 2012.

While this paper focuses on cooperatives in agriculture, cooperatives also have a strong position in other sectors of the economy. In financial services, most companies are cooperatives. Rabobank is well known internationally, with almost 2 million members. Also, most insurance companies are cooperatively owned by over 15 million members (of a total population of 17 million). Although wind energy has a long tradition in the Netherlands, the last decade has seen a rapid increase in wind energy and solar energy cooperatives. Specifically, the reduced cost of solar panels, together with some subsidies from the state, has induced a rapid increase in the number of solar panels placed on roofs of individual houses or other buildings. Most of the owners of these houses are members of an energy cooperative (there are now approximately 220). Additionally, the number of entrepreneur cooperatives outside the agricultural sector has grown rapidly over the last decade. Many former employees who have been dismissed as a result of the economic crisis have started up their own businesses. The new entrepreneurs (by choice or need) have seen the benefits of working together in sharing facilities, purchasing materials and marketing their services.

The objective of this paper is to present and discuss the key success factors of agricultural cooperatives in the Netherlands. The paper presents arguments and empirical findings from various academic and professional sources. As such, the paper can be considered a review of the literature. Based on the direct link between developments in the agricultural sector and the evolution of farmer-owned cooperatives, the paper assumes that sustainably strong cooperatives have a positive impact on the prosperity of farming families and rural regions.

The paper argues that the following factors affect the development of cooperatives in agriculture. First, the type of cooperative legislation influences the opportunities cooperatives have to adjust to changes in economic and political conditions. Second, effective member control continues to be a central characteristic of good cooperative governance, not only for managers to work in the interest of the members, but also to keep members committed to their cooperative. Third, the extent of member heterogeneity influences the efficiency of the decision-making process. Fourth, federative cooperative structures have a life cycle: they may be needed under certain market conditions but they may become redundant when conditions change. Fifth, cooperatives may hold different positions in the food chain, ranging from simple collective bargaining to marketing branded consumer products.

While the latter is not necessarily better than the former, choosing an explicit strategy helps cooperatives to manage internal operations and external strategies.

Before discussing each of these five success factors in a separate section, we will first present a brief overview of the history of agricultural cooperatives in the Netherlands.

History

The history of agricultural cooperatives goes back to the mid 19th century, when more and more agricultural associations were being established. These associations were engaged in farm insurance, cattle breeding, rural credit, and the exchange of farm knowledge. Most of these associations were organised rather informally and were often supported by local dignitaries. With the enactment of the first cooperative legislation in 1876, the first formal cooperatives were established, specifically in purchasing inputs and processing milk. It took another decade before cooperatives become quite popular, but a rapid increase in the number of newly established cooperatives can be found from the 1890s on (Rommes, 2013).

Interestingly, the number of associations grew parallel to the number of cooperatives, indicating that farmers (and their supporters, mainly the farmer unions) saw the benefit of establishing farmer-owned enterprises, but were not yet convinced that cooperatives were the ideal model (Rommes, 2013). This can be explained in part by the unfamiliarity of the new legal model, and in part by the reputation of cooperatives as a pure business model, while most supporters of cooperatives (farmer unions, priests, local dignitaries) also emphasized the community-element of joint organization and the need to invest any surplus in the community instead of paying it out to the members. It was only after 1920 that most associations turned into cooperatives and the cooperative model became dominant.

Although the cooperative was primarily organized for economic purposes, the social element of collaboration and solidarity should not be underestimated. Farmers were used to helping one another in emergencies (neighbourly help) and deciding matters of common interest together (for example in the Water Boards). This idea of common interest was expressed in the names given to the cooperative dairies established at village level. Common names were Harmony (Eendracht), Concord (Concordia), and Our Interest (Ons Belang). Other evocative names that bear witness to a more social or even religious bent were Good Expectations (Goede Verwachting), Future (Toekomst), Hope (Hoop) and Aurora.

The expansion of the world economy between 1890 and 1930 was favourable for Dutch agriculture, and thus for the founding of cooperatives. The Netherlands was neutral in World War I and agriculture benefitted from the large demand for agricultural products during and after the war. Similar to other European countries (Fernández, 2014), cooperatives in the Netherlands were particularly strong in those sectors focused on exports. For that reason, early cooperative development was mainly in the northern and western parts of the country, regions with a long history of commercial agriculture. In the poor southern and eastern regions, where there was mostly small-scale agriculture, cooperatives were developed as institutions for the emancipation of peasants, often supported by farmer unions, the Catholic church and local dignitaries. In sum, cooperatives played an important role in the transformation of semi-subsistence agriculture into commercial agriculture by supplying farm inputs and farm credit and organizing the selling and processing of farm products.

Enabling Legislation

The institutional environment in the Netherlands has always been favourable for the development of cooperatives. This can partly be explained from its historical and sociological background. The Dutch have a tradition of self-organization, democratic decision-making and coalition governments, often referred to as the ‘polder’ mentality. The long history of decentralized government and the need for self-organization in keeping one’s feet dry in the polder have supported the cooperative mentality. Other important sociological features of Dutch society are its high trust and liberal business attitude. Collaboration on the basis of shared-interest is a dominant characteristic of the farming industry.

In the Netherlands, producers may choose any legal business form that suits their need for formal organization of collaboration. From the available menu of business forms, farmers can choose

between cooperatives, associations, foundations, private companies limited by shares, public companies, or partnership-type businesses. The legal form most frequently used by farmers to set up a jointly-owned business is the cooperative. There is no state policy to induce farmers to choose cooperatives over other legal business forms. There is also no state support for the promotion of cooperatives, nor are cooperatives obliged to fund any joint support organization (e.g. for knowledge sharing, accountancy or advocacy). In line with this liberal perspective on business organization, cooperatives are under no obligation to adhere to additional social or civil society principles or to associate potential new members, unless the articles of association stipulate otherwise. The legislature does not actively promote the ICA principles.

Evaluating the current legislation for cooperatives, in general, the Dutch laws on cooperatives and associations has been regarded by practitioners as very flexible with regard to setting up a cooperative and tailoring the cooperative’s articles of association to the needs of its incorporators (Van der Sangen, 2013). Cooperatives are easy to establish and maintain, in terms of money and time. Within a number of general rules on the internal governance structure of cooperatives, they are free to develop more detailed internal rules in their statutes, for instance regarding the type of activities, members’ financial contribution, the distribution of surplus, and the communication between the members and the cooperative. At the same time, the business organizational rules on the cooperative – which are directly linked to Dutch legislation on associations – provide enough flexibility to tailor internal governance to the needs of the members. While there are some tax benefits for cooperatives, particularly for small cooperatives to obtain corporate tax reduction, they are limited and have never been a reason for farmers to choose the cooperative form over any other business form.

In general, compared to legislation in other EU countries, the Dutch laws on cooperatives has been called enabling, as it has few compulsory rules and allows significant flexibility in designing statutes of individual cooperatives (Bijman et al., 2012).

Effective member control

Good corporate governance in cooperatives, including effective member control, can never be taken for granted. One of the key issues in cooperative governance is the allocation of decision rights between boards of directors and professional management (Bijman et al., 2013). The board of directors, representing the membership, needs to maintain sufficient decision rights so as to control the strategic development of the organization. At the same time, professional management demands

room for entrepreneurship, both for being successful in competing in the market and for venturing into new strategic directions and attracting good quality managers. The key question then becomes how many decision rights the board of directors delegates to the professional managers.

Especially for cooperatives pursuing growth strategies, board control over management is a very relevant issue. According to agency theory (Jensen and Meckling, 1976), one of the main functions of the board (as the principal) is to make sure the management (as the agent) makes decisions that are in the interest of the owners of the company. Insufficient monitoring and control provides room for decisions by managers that are not in the interest of the owners or, in the case of a cooperative, of the members. Fulton and Hueth (2009) have shown that the combination of high complexity in the cooperative firm with a heterogeneous membership leads to paralysis in the board and thus, to a de facto shift in decision-making power from the board to the managers.

Where agency theory starts from the premise of conflicting interests and seeks solutions in designing mechanisms that align interests, stewardship theory (Muth and Donaldson, 1989) emphasizes the shared interests between the board and management in promoting organizational performance. Thus, from a practical point of view, the discussion is not just about organizing effective control, but also obtaining a good balance between control and empowerment of the managers.

Boards of cooperatives may respond to the need for growth and strategic reorientation by delegating more decision rights to the managers, either within existing governance structures or within formally changed governance structures (Hendrikse, 2005). These new structures entail a transfer of decision rights from the board to professional management. Accommodating the world of farmers and the world of professional managers in one corporate governance structure is a challenging task that lies with the board of directors (Bijman et al., 2013).

Cooperatives have shifted to another corporate governance model because of changes in the competitive environment. In order to develop appropriate strategic and tactic responses to competitive pressures, cooperatives have felt the need to strengthen the autonomy of their management, reduce member influence on operational decisions, find new sources of equity capital, and professionalize their supervisory bodies. In other words, their strategic re-orientation towards more customer focus, diversification, and innovation has been accompanied by changes in the decision-making structure.

Agricultural cooperatives in the Netherlands are known to be flexible and innovative in their internal governance structures. Above, we saw that the Dutch laws on cooperatives allow for significant freedom in deciding internal structures. Within the possibilities offered by legal boundaries, Dutch cooperatives have found various ways to deal with their challenges of strengthening of member commitment, member control, managerial entrepreneurship and financial requirements.

Bijman et al. (2013) found that over the last 20 years, most agricultural cooperatives in the Netherlands introduced a formal division of labour between the Board of Directors, which took responsibility for decision control (ratification and monitoring) and the professional management, which was responsible for decision management (initiation and implementation). This division of labour has been institutionalized in new internal governance models (or board models). Besides the traditional model, which has been around for more than 100 years and is common in many countries, the authors found two new corporate governance models: the management model and the corporation model. In the management model, the management of the cooperative firm is also the Board of

Directors (BoD) of the cooperative society. In this model there is no longer a distinction between the decisions regarding the strategies and policies of the cooperative and the execution thereof. The BoD has been professionalized, and the supervisory committee supervises the society and the firm at the same time. In the corporation model, the BoD of the cooperative society has become the supervisory committee of the cooperative firm. A legal separation between association and firm has been established, turning the cooperative society into a 100% shareholder of the cooperative firm. This structure provides the management with relatively more autonomy.

Another innovation in cooperative governance structures is related to the composition of the board of directors and the supervisory boards. The Netherlands allows a minority of non-member experts on these boards. In addition, large cooperatives have introduced a member council of 100 to 200 members that has taken over most of the rights and obligations of the General Assembly. This member council is more likely to consist of committed members interested in the general affairs of the cooperative. Also, this member council is a pool for new board members.

The Netherlands is not unique in these changes in internal governance. Bijman et al. (2014a) have shown that other European countries have also introduced several of these innovations. However, the Netherlands seems to be both the most innovative and the most advanced in introducing changes in the internal governance structure.

Membership homogeneity

It is often claimed that within large agricultural cooperatives, particularly marketing cooperatives, the heterogeneity of member interests is increasing (Cook, 1995). The growth of the cooperative firm through internationalization and diversification results in different groups of members having different interests. Also, members may become more diversified in their individual strategies as their farms specialize. This type of specialization is even furthered by the shift of (some) members from producers of commodities bound for spot markets to producers of specialized products for specific processor or retail customers. Membership heterogeneity poses a challenge for the farmer-owned cooperative (Hansmann, 1996). Decision-making may become more laborious, coordination between member firms and the cooperative firm may become more difficult, member commitment may decrease and member willingness to provide equity capital may be reduced. Membership heterogeneity affects the efficiency of the cooperative organization particularly through the influence cost problem.

The influence costs problem is a major source of inefficiencies in agribusiness cooperatives (Cook, 1995). Several crucial decisions entail the (re)distribution of wealth among the members of a cooperative and thus may provoke influence attempts by members. The allocation of overhead costs, the assessment of members' product quality, and the geographical location of a new investment are but a few examples of such decisions (Hansmann, 1996). Iliopoulos and Hendrikse (2009) found, in a multiple case study, that influence costs are lower in cooperatives with a less heterogeneous membership. Membership heterogeneity (or homogeneity) was measured by the number of different crops the members delivered to the cooperative. Hendrikse and Bijman (2002) found that fruit and vegetables cooperatives that market multiple products, both for their members and other suppliers, are more likely to encounter higher influence costs.

Membership homogeneity has always been very high in the Netherlands. By comparison with other European countries, the Netherlands has a relatively large number of single purpose cooperatives (Van Bekkum et al., 1997). These are cooperatives with a specific field of operations, for example the supply of feed or the processing of only one crop, such as sugar beets. In other countries it is more common to find cooperatives that supply inputs and process and market the agricultural and horticulture products. The combination of many different tasks in so-called multipurpose cooperatives may lead to high influence costs. Other explanations for membership homogeneity are the cultural homogeneity (at least within the protestant and catholic sub-groups), the relatively small distances (thus allowing members to meet in person), and the low differentiation in farm size. One of the challenges for cooperatives to become transnational, that is, to obtain members in different countries, is the expected increase in membership heterogeneity and the concomitant decision-making problems. While the Netherlands is one of the European countries with the largest number of transnational cooperatives (Bijman et al., 2014b), most of these cooperatives are very focused on their product portfolio. The transnational cooperatives can be found in dairy (with milk as a very homogeneous product) and in fruits and vegetables, mostly for the same crop.

Life cycle of (federative) cooperatives

As of January 1, 2016, the last federative cooperative system in the Netherlands was abolished. At that date, the Rabobank changed from a system of 106 local banks, each of them being a member of the central cooperative, into a single cooperative with 106 local subsidiaries (Groeneveld, 2016).

Cooperatives are mostly established as small organizations, which are often based in a particular community, neighbourhood or region. However, when growth opportunities exist, local cooperatives soon experience that for certain activities and bargaining situations, they need a larger scale. For these particular tasks, the most 'natural' procedure is to start collaborating with other local cooperatives and form federated cooperatives. Thus, federated agricultural cooperatives have been established for the joint purchasing of farm inputs, the joint marketing and export of dairy products, and jointly determining quality standards, standardized packages, and the collective promotion of fruits and vegetables.

A federative organization is created in order to realize the common interests of its members without sacrificing their basic autonomy. Member organizations cooperate where necessary in order to remain independent where possible. This accounts for the material interests underlying the federative ideology. While many federated organizations exist for lobbying politicians and civil servants, on behalf of their member organizations, the interest of cooperatives is much more economic. Federated cooperatives are firms themselves, set up to gain economies of scale or to benefit from stronger bargaining power.

According to the Danish cooperative expert Soegaard (1994), economies of scale (which include bargaining power and economies of scope) are the main rationale for the existence of federated cooperatives:

To the extent that the duties of the central organization are economic, the formation of a federation is fundamentally attributable to economies of scale pertaining to the functions performed by the central organization. In the absence of such scale economies there would be no need for member organizations to form a common central organization. (Soegaard, 1994: 107)



Soegaard (1994) has argued that structural change is not only a matter of growth to exploit economies of scale, but also a matter of change in the distribution of inter-organizational power. He has described developments among federated organizations in Denmark, which suggest that there is a strong tendency for the balance of power in federative organizations to tilt in favour of the initially strongest member(s) of the organization. The strongest member(s) will use their power to bring about a restructuring towards a unitary organization. Soegaard describes three options for transitioning from a federated to a unitary organization: (1) the central organization acquires (or merges with) the member organizations; (2) the largest member organization takes over the central organization; and (3) several large member organizations take over parts of the activities/assets of the central organization, thus leading to several unitary organizations. The author concludes that due to the correlation between size and organizational power, federative organizations will be inherently unstable when political influence allows wide latitude in the distribution of the gains from cooperation in the federative organization, and the functions performed by the federative organization are so vital as to allow the central organization or the dominant member(s) to use their organizational power as a lever of structural change.

Over the last decades, most federated cooperatives have been transformed into primary cooperatives or dismantled. For instance, for many years federated dairy cooperatives were exporting butter, condensed milk and cheese, on behalf of the member-cooperatives. In the 1960 and 1970s, many local cooperatives merged into regional cooperatives, which became large enough to organize exports themselves. This resulted in the termination of the federated cooperatives. Other examples can be found in the fresh produce industry. In 1996, with the merger of nine cooperative fresh produce auctions into the marketing cooperative The Greenery, the federated cooperative CBT was dismantled. The main task of the CBT (Central Bureau of the Fruit and Vegetables Auctions) used to be the harmonization of the conditions under which auctioning took place, thus promoting the transparency of the market and improving price determination. In addition, CBT carried out the collective promotion of Dutch fresh produce. In 2000/2001 the fruit and vegetables auction cooperative ZON was transformed from a federated into a primary cooperative. Finally, in 2000 in the feed industry, two major supply cooperatives, Cehave and Landbouwbelang, transitioned from federated cooperatives into a primary co-operatives and subsequently merged into the largest producer of compound feed in the Netherlands.

The more heterogeneous the membership of a federated cooperative, the more difficult the decision-making process is for strategic (such as investment) choices. Federated cooperatives may be able to deal with such heterogeneity as long as members are numerous and small, but it becomes a real

problem when members become much larger than others (as measured by their ownership share or the volume of transaction with the federated cooperative).

Choosing a strategic position in the food chain

The traditional position farmer-owned cooperatives took in the food chain was closely related to the producers and rather distant from the consumers. This situation has changed fundamentally since the 1990s. Cooperatives have copied the market strategies of (international) IOFs in the food industry. Those IOFs have always had a stronger focus on marketing branded products. Dutch cooperatives

have substantially increased their effort in product innovation and marketing branded products since the 1980s.

Cooperatives have traditionally followed a cost leadership strategy, continuously aiming to improve the efficiency of their processing and sales operations. Members have always urged their cooperatives to keep operational costs as low as possible. Cooperatives were not able to influence the price, as they were price takers in competitive markets, or the prices were determined by EU market policies. This cost leadership strategy has led to many mergers among cooperatives when technological developments raised the minimum efficient scale of operation to a level beyond the size of one cooperative. These mergers have led to the small number of cooperatives that have survived (Table 1). Since the 1990s, this merger movement has extended into neighbouring countries (Bijman et al., 2014b).

Besides a strategy of keeping costs as low as possible, marketing cooperatives have developed two other strategies to increase member income. The first strategy was to develop many different products on the basis of the same commodity. Dairy, starch potato and sugar cooperatives have all invested heavily in the development of new consumer and industrial products based on the ingredients of the commodity supplied by their members (milk, potatoes, sugar beets).

The second strategy, followed mostly by cooperatives producing final consumer goods, was to develop their own brands. The main objective of this branding strategy was to strengthen the competitive position of the cooperative, both horizontally when competing with other food companies and vertically in competition with large food retailers (supermarkets).

In the 1980s and 1990s, when branding became more important for food companies, cooperatives copied the strategies of well-established national and international food companies. In the dairy sector, Danone paved the way in branding and market segmentation in the 1990s, based on its experiences in selling water. Specifically, the large dairy cooperatives developed their own strong brands, both nationally (Frische Vlag, Domo, Melkunie, Mona) and internationally. When Campina internationalized into Germany, it developed acquisition targets and strategic alliances among cooperatives that had well-established brands (like Sudmilch's Landliebe, and MKW's Tuffi and Fructis).

Agricultural cooperatives in Europe perform well in many sectors and many stages of the food chain (Höhler and Kühl, 2014). Activities of cooperatives that are not directly related to the members' product are mainly used for generating profit. The latter can then be paid out to the members or retained for investments. Operating at the most efficient scale of production often makes the cooperatives strong competitors for IOFs, which have to make a return on capital that is in line with the stock market expectations. Financing market-oriented strategies has not been a serious problem for most cooperatives in the Netherlands.

Conclusion

Agricultural cooperatives in The Netherlands have shown themselves to be resilient. They have a long history, going back to the enactment of the first cooperative law in 1876. After two decades of slowly gaining legitimacy, the cooperative has become the favourite model for farmer collective action, both in purchasing farm inputs and selling farm products. In the 20th century, Dutch agricultural



cooperatives have benefitted from the market protection provided by the Common Agricultural Policies of the EU, but also from the gradual growth of the internal market in the 1960s, 1970s and 1980s. After the major transformations in the EU's agricultural policies, Dutch cooperatives continued to be successful businesses and strong member-based organizations.

This paper claims that the continued success of Dutch agricultural cooperatives can be explained by a limited number of internal and external factors. The key external success factor has been the enabling legislation, which poses few but clear rules on how cooperatives should be structured and how they should operate. This legal framework has allowed for effective member control and, particularly, has provided room for innovations in internal governance in order to maintain and even strengthen member control in cooperatives that have grown into international companies with revenue in the billions. A success factor that has been mentioned often in the literature on cooperatives is membership homogeneity. The less heterogeneous the membership, the lower the influence cost problem and the more efficient the decision-making processes. While cooperatives experience the benefits of democratic decision-making (such as the higher commitment of stakeholders and fewer bad investment decisions), they need to keep heterogeneity as low as possible to maintain efficient decision-making.

Another success factor relates to cooperation among cooperatives. Going back in history, we saw how many federative cooperative structures emerged. However, these federative cooperatives have been dismantled when local cooperatives became larger, advances in logistics reduced distances, and their position in local communities became weaker. Advances in technology and changes in market conditions no longer required federative structures. In conclusion, cooperatives in the Netherlands have acknowledged that federative structures have a life cycle, allowing for structural changes when market conditions change. Finally, cooperatives have been able to shift from cost leadership strategies when market conditions favoured large-scale production of uniform products to high value-added strategies when the competitive environment changed, particularly with the rise of supermarket companies and the shifting consumer demands towards higher quality, more variation and more convenience.

Although this success story of Dutch agricultural cooperatives seems to be based on a unique combination of external and internal factors, there is no reason to believe why other countries or sectors should not be able to copy their success. Even applying one or two of the success factors described above would help other cooperatives in other countries or other sectors strengthen their competitive position. In sum, directors and managers of cooperatives, as well as policy makers, can learn from these success factors and seek to apply them to their own situation.

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