

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



Different types of producer organisations in The Netherlands

<i>Type</i>	<i>Main function</i>
Farmer union	Interest representation
Producers' Association	Bargaining Exchanging experience
Cooperative	Collective firm



Motives for economic cooperation

Motives

Examples

Countervailing power

Bargaining association

Economies of scale

Processing cooperative

Sharing of risk

Marketing coop with pool

Reduction of transaction costs

Cooperative auction

Access to resources

Credit cooperative

Access to markets

Marketing cooperative

Product innovation / quality control

Marketing cooperative



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)



Effect of heterogeneous membership

	Homogeneous	Heterogeneous
Decision making costs	Low	High
Influence costs	Low	High
Agency costs	Low	High
Commitment	High	Low
Coordination member – coop	Easy	Difficult
Strategy	Focus	No focus
Incentives to provide equity capital	Strong	Weak



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

