Support for Farmers' Cooperatives

Case Study Report

The Role of Dutch Transnational Cooperatives in Cooperative Development

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European Commission

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Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this case study report has been written on four (formerly) transnational Dutch cooperatives with operations abroad, especially in Hungary or other new member states. Of special interest for this case study is how they see their role concerning the cooperative development abroad

Data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank the interviewed persons of the four cooperatives for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives.

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1. Introduction

1.1. Objectives of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives”, that will provide the background knowledge that will help farmers organise themselves in cooperative as a tool to consolidate their market orientation and so generate a solid market income. Within the framework of this study, this report provides the relevant knowledge from four case-studies of transnational cooperatives.

The aim of this study is to find an answer for the question why cooperative often act abroad as an IOF instead of a cooperative. This is also true for several Dutch cooperatives, that e.g. act as an IOF when they set up plants and collect products from farmers in e.g. Germany, Hungary, Vietnam or other countries. On the other hand there are examples where cooperative are transnationals. Why do cooperative make these choices?

This issue is relevant not only to understand cooperative behaviour but also from a policy perspective. First aim of this study is to find out if there are regulatory issues that block cooperative from soliciting foreign members and choosing for an IOF status abroad. Secondly to find out how policy measures could support cooperative to choose for members abroad instead of acting as an IOF. That is especially important if policy makers might choose to support cooperative in the food chain. The aim of the policy makers is perhaps not to come to a situation where strengthening the cooperative, in the countries where it is active, would lead to increased internationalisation with IOF-behaviour in other EU-countries.

1.2. Literature research and hypotheses

When companies go international their foreign operations work in a different socio-cultural, political, legal and economic environment compared to their home country (Hofstede et al., 2010). In order to operate efficiently in a foreign environment, they may apply different governance structure than they have applied at home. This is in line with the literature on New Institutional Economics (e.g. North, 1990), which posits that a different institutional environment may call for a different institutional arrangement. The NIE explanation is that due to differences in the social, legal and economic environment, firms may use different contractual relationships with their customers and suppliers, in order to keep the transaction costs in these relationships as low as possible.

This line of argumentation also follows Menard (2011), who posits that different transactions (of the same firm) may be carried out through different governance structures, thus leading to a so called plural form. Explanations can be found in technological diversity, complexity of the transaction (including the need for knowledge transfer), strategy of the firm, or ambiguity about the costs and benefits of specific investments.

A part of the institutional environment is made up of public and private organizations that support transactions between economic agents. This organizational environment (Zylbersztajn, 1996) consists of banks and other credit organizations, extension services, and different forms of farmer collective action organizations. The impact of the organizational environment on the choice of institutional arrangement is indirect, as the organizational environment particularly affects transaction and production characteristics (Watanabe et al., 2012).

Combining the theoretical approaches of North (1990) and Williamson (1985) leads to the following hypotheses:

> H1: Cooperative going international will choose a different institutional arrangement in dealing with suppliers due to differences in the institutional environment.
>
> H2: Cooperative going international will choose a different institutional arrangement in dealing with suppliers due to differences in the characteristics of the transaction (such as specific investments, environmental and behavioural uncertainty, and coordination needs).

Agency theory suggests that managers have private interests that may not fully coincide with the interests of the owners of a firm (Jensen and Meckling, 1976). As the agents (i.e. the professional managers) are monitored and controlled by the board of directors, they may pursue investment options that lead to a reduction in the control by the board.

We assume that in internationalization of cooperative it is the manager that takes the initiative (and not the board of directors). The managers are better informed about the competitive environment of the cooperative firm and they sense that there is a need to strengthen the competitive position of the cooperative firm by starting foreign operations. Managers, however, are usually not interested in broadening the member base of the cooperative. More members, particularly if they are situated in another country, implies more effort of the manager to communicate with them, for instance at member meetings. Also, as the foreign operation is not linked to the members in the home country, the latter are less inclined to closely control the manager, giving the latter more freedom of entrepreneurship. Thus, we expect that managers have a preference to run the foreign operation as an IOF.

> H3. Managers of cooperative firms prefer to run foreign operations like an IOF.

Cooperative may have different ownership or financial structures. While in the classical cooperative equity capital is supplied only by members. Thus, newer cooperative structures apply various financial structures, giving outside investors income rights and sometimes also decision rights. Well known classifications of ownership/financial structure have been developed by Nilsson (1999) and Chaddad and Cook (2004). The introduction of new financial tools in order to attract additional equity capital often imply a change in the ownership structure of the cooperative or its subsidiaries.

As international expansion is a risky investment, cooperative may seek outside investors to become co-owner of the foreign subsidiary. This would imply that foreign subsidiaries, more often than domestic subsidiaries, are joint ventures. As the foreign partner is most likely involved purely as an investor, the foreign subsidiary is set up as a profit making center.

> H12. Cooperative going international are more likely to have diverse ownership structures like joint ventures

> H13. Foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective.

Another ownership structure issue relates to the distribution of income rights. Current members have income rights, particularly through patronage. Expanding the membership base of the cooperative by inviting foreign farmers to become members implies that the income of the cooperative has to be shared with a larger group of members. Domestic members may not favor this dilution of their income rights.

> H14. Cooperative going international are not likely to invite their foreign farmer-suppliers to become members as domestic members fear a dilution of income rights.

Cooperative may follow different strategies abroad compared to in their home countries. This may be explained by their history, their market position, their supply chain relations. More generally, we may say that cooperative apply different business models domestically compared to abroad. A different business model may lead to a different type of relationship with supplying farmers.

> H15. Cooperative going international will apply different business models in their foreign operations, which will lead to a different relationship with foreign farmers.

And last but not least there are of course costs involved in having an international membership, due to issues like language, distance, difference in culture and differences in legal circumstances.

H25[1]. Cooperative going international abstain from making foreign suppliers members as this leads to extra costs of operating the cooperative due to language, distance, cultural and legal issues that complicate effective decision making.

1.3. Methodology

The case study tests the hypothesis above by interviewing cooperative managers and cooperative board members. This includes transnationals (who have chosen to have foreign members), a cooperative which switched from transnational to IOF form abroad as well as internationals (who have chosen for only the IOF form). By concentrating on Dutch cooperative the study increases comparability concerning legal issues, culture, etc.

Interviews started by asking interviewees to fill in a form with about 10 statements derived from the hypothesis above with a 1 – 5 Lickert scale (see table 3.1). The interviews then concentrate on decisions taken in the past, to focus really on made decisions instead of opinions.

In addition some interviews have been performed with Hungarian local managers to see what is their opinion on being treated as an IOF supplier instead of a cooperative member and to see how they judge the (extra) cost of having cooperative members.

[1] This extra Hypothesis has been numbered 25, to prevent confusion with other cases

1.4. Selection of the cases

The selection of transnational cooperatives for this study is based on the range of sectors they are active on. The cooperative which are selected as a case are:

- Coforta / the Greenery (cooperative in UK, Italy);
- CRV (cooperative in Belgium, IOF in Hungary).
- Friesland Campina (cooperative in Germany and Belgium, IOF in Hungary);
- Agrifirm (no cooperative firm abroad, IOF in Hungary);

Table 1: Dutch agricultural cooperative with foreign members and which have farmer-suppliers or farmer-customers in other countries that are not members of the cooperative (2007).

Name of Cooperative	Sector/ Activity	Number of NL members	% of foreign members	Home countries of foreign members	Host countries
Coforta/The Greenery	Vegetable and Fruit	1500	0.2	UK, Italy, France	UK, Spain and others
CRV	Cattle Breeding	26524	23	Belgium	EU, Oceania, North America, South America
Friesland Campina	Dairy	7131	22	Germany, Belgium	Belgium, Germany, Greece, Hungary, Rumania, France and others
Agrifirm	Feed, Arable farming	17750	0		Germany, Poland, Hungary, Belgium, China, France, Spain, Romania and Ukraine

Source: Van Bekkum (2008b) adjusted by authors

Hungary is an interesting country where Agrifirm, CRV and Friesland Campina are both active as IOF.

2. Description of the cases

2.1 Cooperative Coforta / the Greenery

The Greenery was established in 1996 by assembling the 9 fruit en vegetable auctions. The Greenery B.V. is an international fresh produce company whose shares are fully owned by Cooperative Coforta, with approximately 900 affiliated growers. The growers of the Cooperative and the company combined are specialised in the field of vegetables, fruit and mushrooms, in terms of cultivation, products, consumers and logistics.

The Greenery is one of the world's largest companies in the fruit, vegetable and potato industry with operations in over 40 countries. The biggest core markets are the Benelux territory, Germany, the United Kingdom and France. But there is also activity in Southern Europe, Scandinavia, Russia, Central Europe, North America and the Far East. Turnover in 2011 reached € 1.6 billion.

The number of employees of the Greenery is over 1500. The Greenery has branches in the Netherlands, Belgium, Spain, the UK, Germany, Poland, Italy, Russia, Romania, China and the USA. The Greenery has nine subsidiary companies, set up to ensure that each market supplied by the sales organisation is optimally served. Each of these companies is specialised in a particular product range and/or market.

Table 2: Key figures of The Greenery (2011):

Number of members	1.500
Net turnover	1.610 M€
Net result	1,9 M€
Equity	75 M€
Balance sheet total	496 M€
Number of operations abroad	8
Number of foreign members	1 % (10)
Number of cooperative operations abroad	0

Membership

Coforta is originally a Dutch cooperative, but membership is also open to a selection of international growers. This allows Coforta to respond more effectively to the demand for local products and improve cooperation with international suppliers.

In the fresh fruit and vegetables industry internationalisation is particularly important for those marketing cooperatives that supply year-round the full assortment to major retail customers. The Greenery (and also the cooperative Fruitmasters) has a subsidiary that imports tropical products and products which are out of the Dutch production season. The Greenery has a subsidiary in the UK, which supplies its UK retail customers, partly from UK producers, partly from Dutch producers. Several UK producers are member of Coforta/The Greenery cooperative. 80 % of the Dutch production is exported to other countries.

Relationship with members

The members of Coforta have a strong relationship with the Cooperative. They have a sales obligation with a maximum of home sales of 25 % of their return from products. The Greenery has a purchase obligation of all the products offered by the members. The main task of the Cooperative is to connect supply and demand and to trade the products of the members with the highest price as possible. There is no limitation for Dutch growers to become members. There are approximately 10 foreign members of which some of them are Dutch growers who started their business abroad. Besides there are some Dutch members with both a company in the Netherlands and a subsidiary abroad.

The growers are paying for their membership: a fixed yearly amount and a supplemental part dependent on their turnover. A part of the investment is invested as a loan with a duration of 8 years.

The advantages of the growers consist of:

- Guaranteed sales
- Short payment period of 8 days
- Response to consumer demands

Strategy Cooperative

The strategy of the Greenery is to develop, open and stabilize market channels in which the products of the Greenery growers can be streamed. Sometimes this means that abroad there is preference for local products combined with niche products from the Greenery growers. In addition to this 'local for local' sometimes (local) growers abroad can become a member of the Cooperative in line with a strong relationship and the need of the Greenery for specific local products. In this way these growers provide access to the local market for the Greenery. The Greenery started with these selective members abroad in England and Italy.

Some Dutch members who established an enterprise abroad were already a cooperative member. They can remain a member even when operating abroad, but it must fit to the strategy of the Greenery. The Greenery is stimulating its members to establish a business abroad to open a local market which is protected by local producers. The strategy of the Greenery is to have strong relations with growers/suppliers abroad. However only a selection of these growers can become a member. Too much foreign members will lead to an increase of transaction costs (e.g. language problems) and is harmful to the Dutch growers who invested in the Cooperative and could diminish the 'Dutch' image. However in order to strengthen the relationship with the foreign members Coforta recently started with a members magazine in English.

The strategy of the Greenery is that all operations abroad must be seen as a contribution to the profit of the Cooperative. If not, there will be a discussion about the continuation of it. There are some operations abroad without relationship with local growers there. In this case it's the profit argument to start up an operation over there.

Findings from the interviews:

Internationalisation plays an important role in the strategy of Coforta, in order to increase the market share of the cooperative. Current Coforta members are aiming for profit maximization, so that all foreign investments and, activities need to be in line with these ambitions and must contribute to a positive result of the Cooperative.

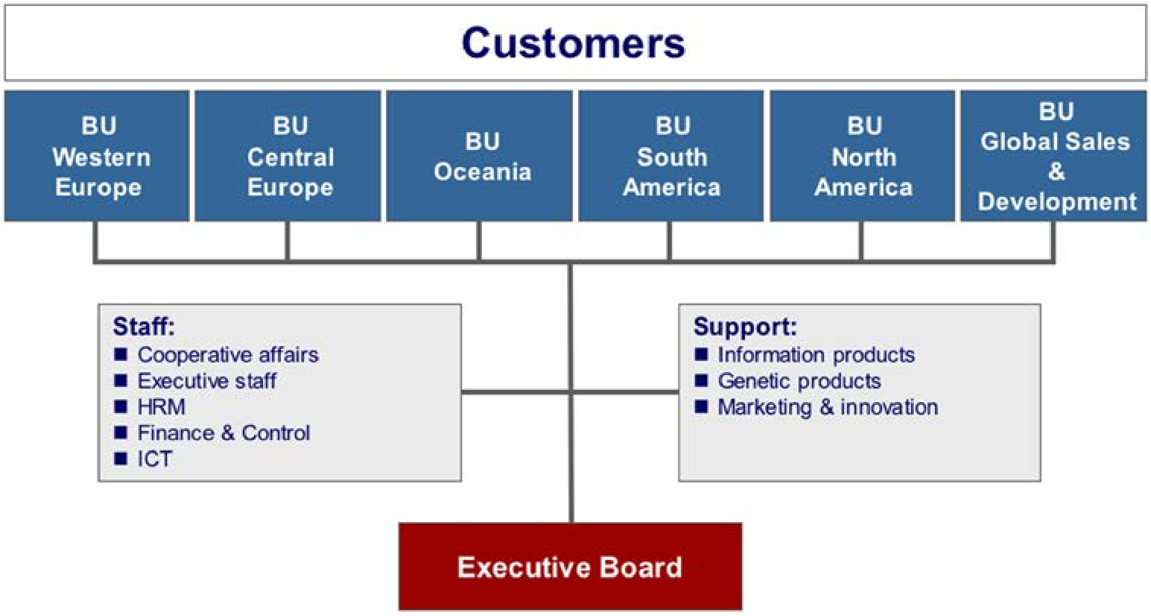
In some European region there is a high demand for local for local production. The Greenery enters these markets and aims to strengthen the relationships with local suppliers/growers. The policy of the Greenery is to stimulate her Dutch members to start a subsidiary in these regions. In a number of exceptionally cases a few number of these suppliers are allowed to become members of the cooperative. In general more foreign members are not desired due to the differences in culture, language and management.

For the future The Greenery will stay a Dutch organisation with mainly Dutch members and a Dutch character. One of the main reasons is that is that a lot of capital is built up in the Cooperative by Dutch growers.

2.2 Cooperative CR Delta, VRV /CRV

CRV is an international enterprise in the field of cattle improvement (breeding, genetics). The shareholders are the Dutch Cooperative CR Delta and the Flemish Cooperative VRV. Since the 1st of September 2009 CRV has been working on establishing a new international structure based on business units. These units are active in the countries that surround them so that customers can always be served in their own time and culture zone.

The organisational chart below shows the areas in which the business units are active. The Global Sales & Development business unit serves customers in countries that are not (yet) covered by other business units. CRV's products and services are delivered to approximately 60 countries.



Source: CRV Annual Report 2009-2010

CRV is a cattle improvement cooperative, committed to add value for farmers. To continue delivering products and services to its customers in the future, CRV aims to achieve increased international growth and healthy financial business development. This international approach is also important for decreasing veterinary risks.
As a cooperative, CRV wishes to support the operational management continuity of its members. Therefore cattle farmers have a major influence on CRV policy through advisory bodies and member committees. CRV has the task to contribute to the continuity of the dairy and beef cattle farms. Growth is necessary to continue development of innovative products.

Activities:

- Genetics: research, breeding and marketing of genetic material (semen, embryo)
- Collection and processing of cattle data, herd book activities
- Services: on-farm services (embryo transplantation, artificial insemination), management products and publishing magazines

Table3: Key figures of CRV (2011):

Number of members	
- **CR Delta (NL)**	22.750
- **VRV (BE)**	6.500
Net sales	155 M€
Net profit	3,4 M€
Equity	76 M€
Balance sheet total	123 M€
Number of operations abroad	60
Number of cooperative operations abroad	1 (20%)

Membership:

The Dutch Cooperative CR Delta currently has 22.750 members (80 % of CRV), while the Flemish cattle Improvement Association, VRV has 6.500 members (20 % of CRV). The member council of CR-Delta consists of 6 members.

Relationship with members

The relationship between the two cooperatives and their members is relatively weak. Members pay a yearly contribution of 60 Euro. They can end their membership anytime. The invested capital is in 'dead hand' of the cooperative (unallocated capital). The benefits for being a member are:

- Influence on the policy and strategy of the Cooperative;
- Receiving the magazine "Veeteelt" ("Animal Husbandry", 16 x a year);
- Yearly member benefit: 50 % of profit calculated as a part of the members turn over.

Involvement of the members is a critical factor. There is a special manager within the organisation who is responsible for communication and cooperative affairs.
Member meetings are attended by 15 % of the members. Despite of the weak membership relation the participation on the membership meetings as well the loyalty of the members is high.

CRV strategy
CRV aims to further consolidate her position in the field of international cattle improvement. It intends to achieve this by responding quickly to changing market requirements and by offering innovative solutions and concepts that answer the needs of its customers: dairy and beef cattle farmers worldwide. To continue delivering high-quality products and services to her customers in the future, CRV is aiming to increase international growth and healthy financial business development.

The main reasons of CRV's internationalization is extending their activities in:

- Marketing genetic products
- Data collection and marketing management information systems
- Services (e.g. insemination)

Stages of the international development within the CRV can be divided into:

- Export
- Distribution
- Own branch
- International sourcing
- International management

All operations of CRV abroad are meant for opening and remaining market channels for genetic products and services, in line of CRV as a leading customer-focused cattle improvement cooperative, fully committed to adding value for farmers.
Business units and operations abroad mostly operate as independent organisations. Strategy of CRV is to grow because of benefits of scaling, being used to invest in research and knowledge. Expansion is necessary because there is a lot of competition.

In the financial year of 2009-2010 CRV intensified the attention on the relationship with members. Various studies about member involvement were conducted with the aim to improve the relationship with her members.

At the beginning of this century CRV decided to cooperate with the Belgian genetic Cooperative VRV. Due to complicated national legislations and the differences in equity it would have been very difficult to create one cooperative in the field of genetics. In case of merging the two cooperatives together, the Belgian VRV would lose her current contribution of the Belgian government. So that the two cooperatives remain independent, being the shareholders of the CRV-holding. Although the language is similar there are great differences in culture between the countries, which makes it difficult to function as a common cooperative.
In the future there will be a trend to combine more breeding cooperatives from abroad. To survive in a competitive environment scaling is necessary. Limiting factors such as language must be overseen then.

Members that set up a farm business abroad are not allowed to stay a member and have to quit membership.

Findings from the interviews

The CRV-holding is owned by a cooperative in The Netherlands and one in Belgium, which makes it (more or less) a transnational in the definitions of this project. The main goal of CRV is cattle improvement and contribution to the continuity of the dairy and beef cattle farms.

In line with these aims CRV is developing foreign activities in order to expand her market share. CRV's relationship with her members is weak, but the cooperative is striving to strengthen this relation. Since 2012 50 % of the profit of the cooperative is paid as profit-appropriation to her members. The members feel responsible for the member's capital and the strategy of CRV. The international activities are leading to a higher added value and income for the members.

On the short term CRV is not in favour allowing international farmers becoming members, or merging with other cooperatives due to problems in the field of language, culture and legal aspects. However in the future it is foreseen that CRV is collaborating with foreign cooperatives or even merging with them.

2.3 Cooperative Royal FrieslandCampina

FrieslandCampina is a dairy Cooperative with 19,850 member farmers in the Netherlands, Germany and Belgium. The members own and supervise the company Royal Friesland Campina N.V..

The history of FrieslandCampina goes back to around 1871 when Dutch farmers joined together in cooperatives so that together they could safeguard the supply and sale of milk. As the company is directly linked to the cooperative it controls the entire production chain from raw milk to distribution. Today the cooperative supplies consumer products, such as dairy-based beverages, infant & toddler nutrition, cheese, butter, cream and desserts, in many European countries, in Asia and in Africa.
The ambition of FrieslandCampina is double-edged: first to be the most attractive dairy company for the cooperative's member dairy farmers, and on the other hand to bring the essential nutrients of natural dairy to people worldwide. To achieve this ambition, FrieslandCampina has formulated the R*oute2020* strategy for the period of 2010-2020. The key words in this strategy are growth and value creation.

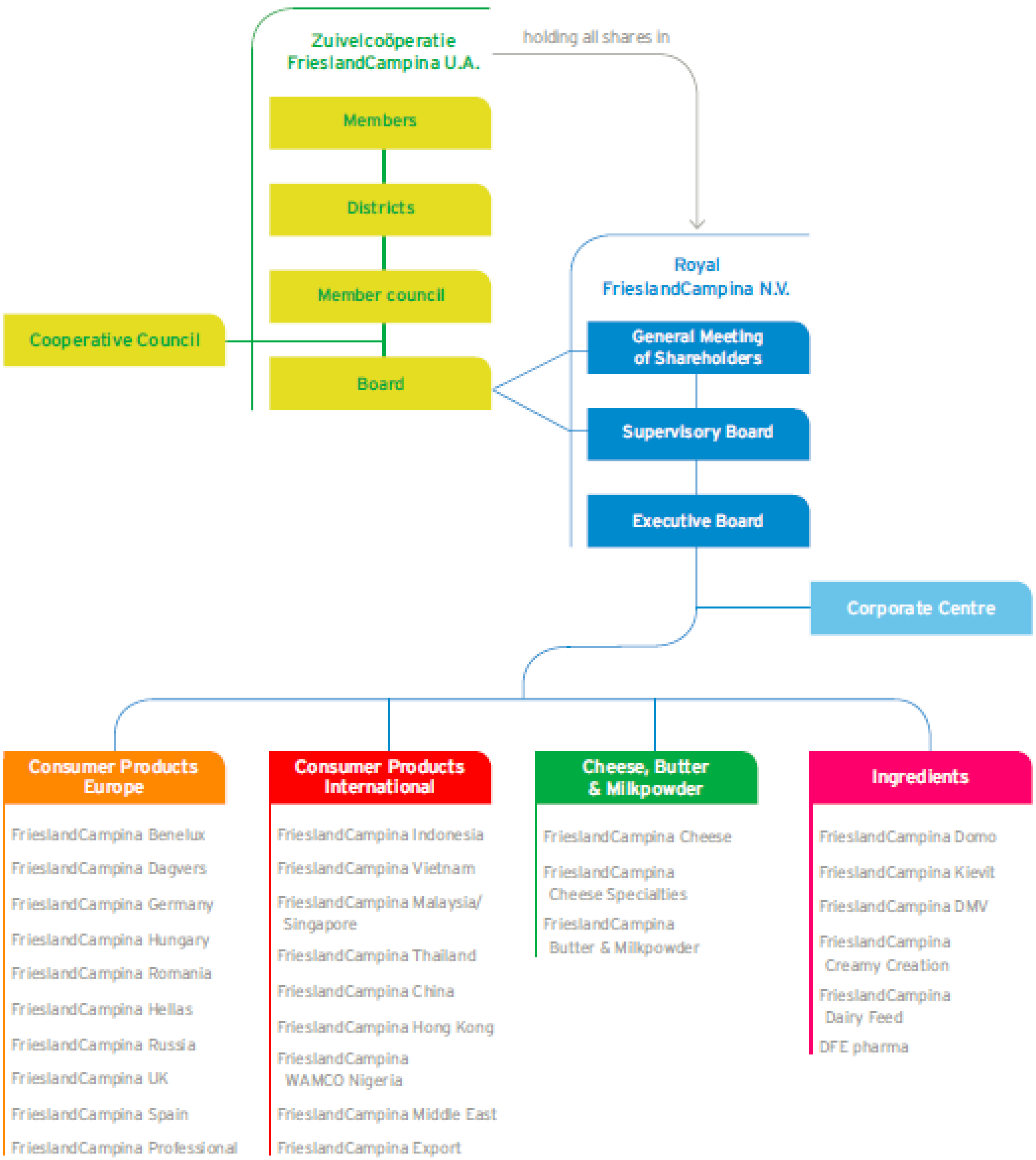
FrieslandCampina worldwide
FrieslandCampina has its own offices and facilities in 25 countries in Europe, Asia, Africa and North America. FrieslandCampina's dairy products are available in more than 100 countries. In several countries there is a strong collaboration with local farmers who are not co-owners in the business but are nevertheless in a long-term partnership as suppliers to the subsidiary of FrieslandCampina.

In the period of 2000 – 2003 Campina merged with a Belgian and a German cooperative with (currently) resp. 70 and 1200 members. This aggregation conformed during the period of idea of 'one' Europe. During the merge several cultural and language barriers have arisen. It meanly manifested in the cultural differences regarding to milk pricing. German dairy farmers were not used to the winter-milk premium and summer-milk levy. To solve the problem Campina decided not to uniform the pricing strategy over these countries, and to change her pricing-strategy for the German farmers but guarantee equality on a yearly basis (so that yearly prices are equal but summer and winter prices differ).

Financing
FrieslandCampina raises loans from different groups of lenders (member dairy farmers, banks and investors) which ensures good risk minimisation. The major portion of the debt capital financing has been borrowed from financial institutions in and outside the Netherlands.

Table4: Key figures of Friesland Campina (2011):

Number of members	19.850
Net sales	9.626 M€
Net profit	403 M€
Equity	2.264 M€
Balance sheet total	5.739 M€
Number of operations abroad	25 countries
Number of Cooperative operations abroad	2 (6,3%)



Source: Annual Report 2011, Royal Friesland Campina N.V.

Relationship with members

The relationship between the cooperative and its members is very strong, meaning that the members have the obligation to deliver, while the FrieslandCampina has purchasing obligation towards her members. The yearly contribution is 960 € per member.
The Cooperative has a specific policy for new members. New membership is limited, however farm successors have the right to take over the membership. New members should invest an amount of 4 € per 100 kg milk. A part of the members capital is recorded (allocated) on name in shares and/or certificates. At this moment it is worth approximately 8 € per 100 kg milk. As an example: the members' capital of 1 million kg milk dairy farmer is about € 120.000.
FrieslandCampina has foreign members in Belgium and Germany. The acquisition of these relatively small cooperatives in the past was necessary to open and develop new market channels. Later on it became clear that the acquisition of the cooperatives had some disadvantages related to language-, culture- and social aspects.
Out of the profit of Royal FrieslandCampina N.V., 50% is added to the Company's equity, 30% is paid as profit appropriation for members and 20% is paid for the members as fixed member bonds. The milk price FrieslandCampina paid the member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. for the milk supplied during the 2011 financial year comprised the guaranteed price, the performance payment and the distributed registered fixed member bonds per 100 kilos of milk. All the shares in the company's capital are held by the Cooperative, the members of which are involved in dairy farming or the acquisition, processing or sale of milk. The cooperative's geographical area of operations is divided into 21 districts, each of which has a District Council. The Cooperative's members appoint the Boards of the 21 districts. Together the 210 members of the District Councils form the Members' Council of the Cooperative.

Membership meetings show a great involvement with 40% attendance. FrieslandCampina puts big emphases on membership involvement, while intends to increase market and social awareness.

Strategy

The ambition of FrieslandCampina is to be the most attractive dairy company for the member dairy farmers, and to bring the essential nutrients of natural dairy to people worldwide, Continuation of the business on long term is very important. From this ambition it is clear that international growth is necessary.
Merging cooperatives on international scale is difficult due to discussions about profitability, production locations, people and management etc.
The biggest bottle neck FrieslandCampina faced was manifesting in cultural differences and habits. In Germany i.e. discussions around gene technology play an important role in animal breeding while in the Netherlands grazing is crucial aspect. Language differences has been solved by choosing Dutch as the main language on Board meetings.

Except the German en Belgium cooperative members all other operations abroad are private or joint venture. Experiences have shown that it is more easy to take over an independent business then a cooperative. The cooperation with German dairy farmers started as a joint venture aiming for entering the German market, German dairy farmers became members just on a later stage. Regarding to cooperative and quality control there are differences in the Dutch, German and Belgian policies. This is the reason why the form of Public Limited Company has been choosen. This way foreign members of the cooperative are falling under the Dutch law.
The policy for the foreign milk suppliers (besides the Belgian and German members) is to pay them a common regional price without profit distribution. Most international operations can be seen as part of market penetration, market position and profitability for the members.
On long term there should be a balance between the membership size and the employee size of the company Royal FrieslandCampina. In order to ensure the further growth future cooperation with foreign cooperatives can be realised. Then FrieslandCampina will use her experiences of Belgium and Germany.

Findings from the interviews

For FrieslandCampina it is far more easy to take over foreign IOF's then cooperative firms due to the additional costs related to language- and especially culture differences while dealing with foreign members. In case of an IOF it is more easy to operate with a local director and management team. The current experiences of FrieslandCampina show that it is difficult to co-operate with the foreign members, these problems are mainly related to cultural differences and to the alteration in their production systems. Another bottle neck is the fear of Dutch members of the dilution of their income rights. Legislation is not a real argument for preventing the cooperative acting abroad.
On long term there will be a need to take over or to merge with foreign cooperatives. The need for scaling will predominate the disadvantages of differences between members.

2.4 Cooperative Agrifirm

On 1 June 2010, the Cooperative Agrifirm in Meppel and Cehave Landbouwbelang in Veghel merged to form a single cooperative, Coöperatie Agrifirm U.A. based in Apeldoorn, the Netherlands. Farmers and market gardeners established the first cooperative at the end of the 19th century. Together they acquired greater strength in various areas, for instance, the purchase and sale of products.

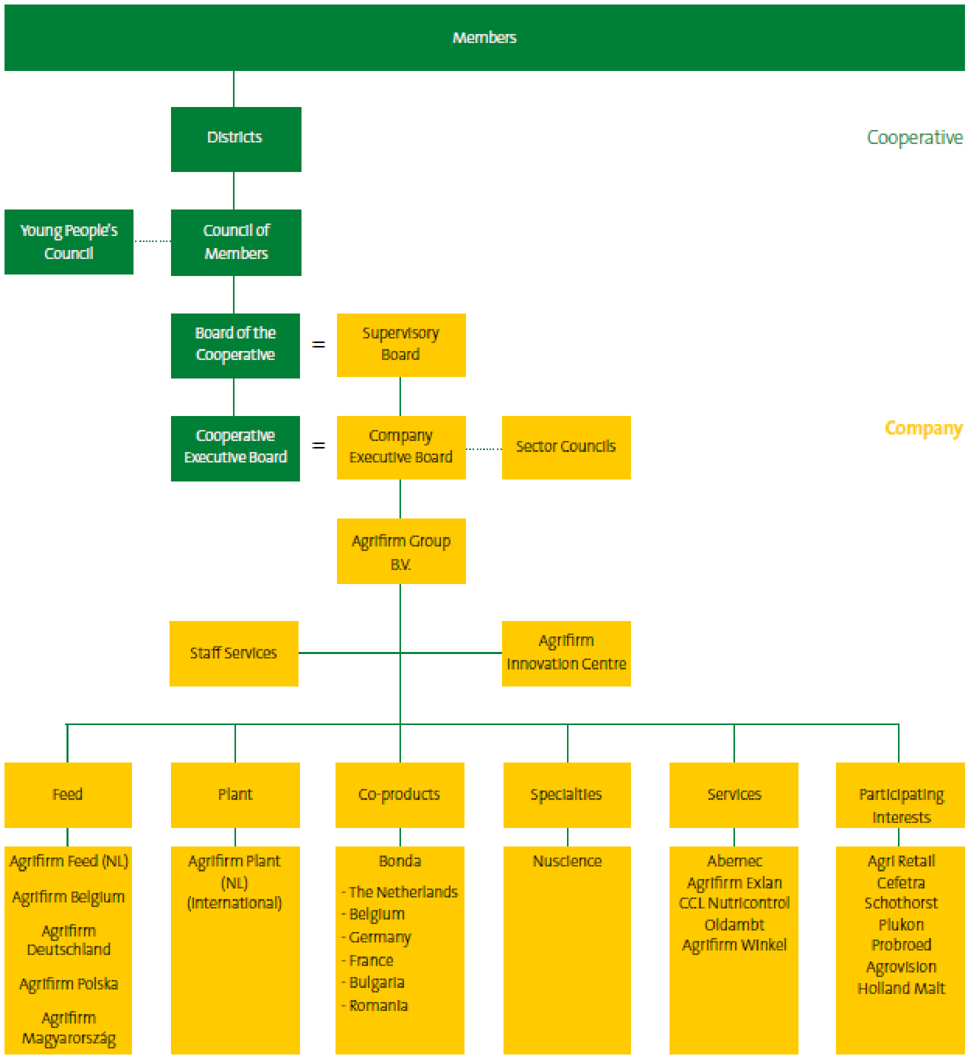
The role of the cooperative has grown along with developments in the market and in society. The interests of members are decisive in this respect. Agrifirm's mission, as a cooperative of farmers and market gardeners, is to create value for its members.

Table 5: Key figures of Agrifirm (2011)

Number of members	17750
Net turnover	2.272 M€
Net result	10 M€
Equity	804.1 M€
Balance sheet total	M€
Number of operations abroad	0
Number of foreign members	0 %
Number of Cooperative operations abroad	0

Structure

Agrifirm Group B.V. is a private company incorporated under Dutch law which acts as a holding company of group companies and participating interests of Agrifirm. All shares of Agrifirm are held by the cooperative. Agrifirm Group has a Supervisory Board of 12 persons, who consist of the members of the Board of the Cooperative. The Executive Board of Agrifirm is responsible for the day to day operation, it is appointed by the Supervisory Board of Agrifirm Group. The organisational chart below shows the relationship of the cooperative and the company and its divisions.



Source: Annual Report 2011, Agrifirm

Activities

Agrifirm is currently active throughout the entire Netherlands in the livestock, arable farming and horticulture sectors. It consist of 17 subsidiaries operating nationally and internationally, enabling to develop activities in the Netherlands, Belgium, Germany, France, Spain, Romania, Hungary, Poland, Ukraine and China. Agrifirm is not active in Denmark, as they cannot provide an added value to that market.

Agrifirm supplies products and services for animal feed and the cultivation of crops. It differentiates itself as the player of choice when it comes to providing customers with solutions that produce better results.

Membership

Coöperatie Agrifirm U.A is a cooperative incorporated under Dutch law and has approximately 17,750 Dutch members. The members of the Cooperative are assigned by the Board to one of 28 geographical districts. Cooperative Agrifirm does not have foreign members. Dutch farmers working internationally are not allowed to become members for their foreign activities.

Relationship with members

Agrifirm creates sustainable value for its members by: supporting customers, offering sustainable and profitable products and concepts to enable the farmer/grower to achieve the best results. Her main task is to create with her products and services an added value and profit for the farmers.

The members of Agrifirm have a weak relationship with the cooperative. There is no required contribution to become a member, however it is obliged to purchase products for a yearly amount of at least 2500 euro. Agrifirm members do not have a sales obligation towards the cooperative, however Agrifirm is committed to purchase all crops produced by her members. The costumers and members have the same rights which means that the prizes of the products and services are the same. Agrifirm partially passes on her profit to her members via cooperative profit appropriation, which makes it attractive to become a member. It appears that some Dutch (non member) farmers in the foreign country are in a preferred position to receive additional consultancy services, esp. when, in point of view of Agrifirm, they have an 'added value' in the foreign region.

The advantages of members are the following:

- Profit appropriation
- Guaranteed purchase in the crop sector

The weak relationship with the members is also manifested in the low involvement (10 % attendance) in the membership meetings and in the trifling loyalty.

The membership can be ended any time, the invested capital, stays in the so called 'dead hand' (unallocated capital) of the cooperative.

Strategy

Agrifirm wants to be a link in the chain of success of its customers and partners and generate sustainable value for her members. In order to secure this position, it dedicates itself in the coming years to growth and focus, nationally and internationally. Agrifirm is looking for interesting growth opportunities that strengthen its core activities and are consistent with the adopted strategy.

All foreign Agrifirm companies are operating as independently and are seen as a contribution to the profit of the Agrifirm cooperation, with future perspectives. The foreign operation should always be in line with the main strategy with the cooperative 'creating added value for their customers.' The advantages to operate internationally results in cost savings, purchasing advantages and a strengthening of the combined innovative power. The foreign Agrifirm operations have special attention to the Dutch farmers there esp. when they play a role in stimulating the local agriculture. A strong local agriculture is of importance due to the chances of increasing activities of Agrifirm business abroad.

Before the merge of the cooperative Agrifirm and CHV, due the short supply chain and strong business relationship with Germany it was possible for German famers to become member of the cooperative. This was a problematic experience. German members were aiming for a maximal profit appropriation, which was not in line with the cooperative values that Agrifirm promoted in the Netherlands. The cooperative was also facing cultural and language problems with her foreign members, so that before the merge it has been decided to stop foreign membership. Since then cooperative Agrifirm has only Dutch members.

Reason why Agrifirm does not want to have foreign members are the following:

- economic reason: the equity has been built up the last more than 100 years by Dutch members, which they are very proud of;
- Language barriers and avoiding additional cost that would arise from translation.
- Cultural barriers, which manifested in the past in the differences of business culture with the previous German members (short-term paying out of profits to members versus investing part in the unallocated capital of the cooperative);
- Resistance of working as a cooperative in East-European countries (distrust of these farmers due to their experiences in the past);
-

Findings from the interviews

Agrifirm is a Dutch Cooperative being present internationally as an IOF. The main reason Agrifirm does not want to allow foreign farmers to become members lies in the strong Dutch character of the cooperative and in the previous negative experiences with foreign members. The decision to operate as an IOF abroad is partly based on the fact that Agrifirm's prize calculation is the same for her costumers as her members. Furthermore trough offering her services Agrifirm can also achieve her mission 'generating sustainable value and profit for the farmers' abroad, without choosing for a Cooperative business structure.

3. Analysis

For most firms, entry to new, foreign markets or industries and development of a strong position in the international market place are essential for growth (Buckley and Ghauri (2004). The case studies presented show that internationalization is playing an important role in the strategy of all the four cooperatives studied. Internationalisation allows the companies e.g. to overcome the limits of domestic growth, to enter new markets, to gain purchasing advantages or to decrease veterinary risks. The most important drive for all cooperatives for internationalisation is to develop new markets for their products (dairy, vegetables, feed, semen). Increasing the volume from suppliers is not the first argument but is more a consequence of the strategy chosen.

The results of the questionnaire (Table 3.1) suggest that cooperatives going internationally intend to choose a different institutional arrangement than being a cooperative abroad. All four companies agreed on this statement, however their reasons vary.

This chapter aims to analyse the following aspects, which are relevant to answer the main research question 'Why cooperative often act abroad as an IOF instead of a cooperative'.

- Institutional- , social- and habitual arrangements
- Membership
- Management

Table 3.1: Results of questionnaire (number of answers given by 8 interviewedpersons)

	STATEMENT	Totally dis-agree	Dis-agree	Neutral	Agree	Totally agree
1	Cooperatives going international will choose a different institutional arrangement:					
	• in dealing with suppliers.		xxx	x	xxxx	
	• due to the differences in the institutional environment (bank, extension services).		xxxxx	xx	x	
	• due to the differences in the characteristics of the transaction (behavioural uncertainty, coordination needs).	x	xxx	xxx	x	
2	Cooperatives going international are more likely to have diverse ownership structures like joint ventures		xx	xxxx	xx	
3	Cooperatives going international are not likely to invite their foreign farmer-suppliers to become members:					
	• because domestic members fear a dilution of income rights.		xxxxx	x	xx	
	• because this leads to extra costs of operating the cooperative (language, distance, cultural and legal issues).		xxx		xxxxx	
4	Managers of cooperative firms prefer to run foreign operations like an IOF.		x		xxxxxx	x
5	Foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective.		x	x	xxxx	xx

3.1 Institutional arrangement

According to the responses of the questionnaire all cooperatives subject to our case study agreed that cooperatives going international will choose a different institutional arrangement.

As international expansion is a risky investment, a cooperative may seek outside investors to become co-owner of the foreign subsidiary. This would imply that foreign subsidiaries, more often than domestic subsidiaries, are joint ventures. Some cooperatives are beginning their foreign activities with joint ventures (lower risk, getting more local knowledge of market and management), followed by subsidiaries. According to the questionnaire the statement in most cases has been answered neutral, which imply that there is no preference to operate as a joint venture abroad. In the four cases studies most of the foreign operations have been owned by the cooperatives. However cooperative CR-Delta established in 2009 with four European partners the European joint venture EuroGenomics, as well as cooperative FrieslandCampina having joint venture ownership structures. According to results the hypothesis ‘cooperative going international are more likely to have diverse ownership structures like joint ventures’ cannot be verified or denied.

The strategy of all four cooperative is that all operations abroad must be seen as a contribution to the profit of the cooperative. In case the foreign operations are not profitable a strategic decision is going to be made about their continuation. Our analysis shows that the members of the cooperatives have a strong influence in the decision making process of internationalizations, so their expectations on the likely benefits are an important drive. Interesting to note that in the case of the cooperatives the management of the companies has a limited investment right without the approval of the Board of the cooperative, this decisions enabled the cooperatives to achieve faster international investments. The hypothesis that ‘foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective’ can be verified from our analysis.

3.2 Membership

Three from the four cooperatives (CRV, FrieslandCampina, Coforta) do still have some of their foreign suppliers, customers as cooperative members:

- CRV’s shareholders are the Dutch cooperative CR Delta and the Flemish cooperative VRV;
- In the period of 2000 – 2003 FrieslandCampina merged with a Belgian and a German Cooperative with currently resp. 70 and 1200 members;
- Cooperative Coforta introduced foreign membership in 2007, enabling for foreign suppliers of the core market of the Greenery to join the cooperative. This allows Coforta to reflect more effectively on the costumer - demand for local products.

Agrifirm had foreign (German) members some years ago, and decided to terminate the membership of these members, due to the effort and expenses they had for remaining members, and due to their opinion about allocating the profit, which was different to their Dutch members.

Although the cooperatives subject to our case study integrate(d) foreign suppliers as cooperative members (0-23% foreign membership), they still source from foreign farmers, where the farmers are not members of the cooperative.

Allowing foreign suppliers or costumers becoming members of the cooperative, would suggest that such a model creates the need to organise bilingual member meetings, which complicates the communication and decision making by the board. This obstacle has been solved both at Coforta and at Friesland Campina by choosing Dutch as the main operating language. In case of Friesland Campina board meeting are hold in Dutch (in combination with a professional translator), while Coforta does not actively involve her foreign members on the membership meetings.
Differences and problems related to language, habit and culture has been mentioned at all the cases subject of this study. The case of Agrifirm confirms the hypothesis, as her experiences with previous German members show they refused foreign membership possibilities due to cultural barriers, which manifested in the past in the differences of business culture. According to the analysis letting foreign suppliers become member of the cooperative leads to extra costs, however cooperatives FrieslandCampina, Conforta and CRV think they have, and are able, to overcome these problems in the long future.

Current members of the cooperative have income rights, particularly through patronage. Expanding the membership base of the cooperative by inviting foreign farmers to become members would imply that the income of the cooperative has to be shared with a larger group of members. Based on the answers of the questionnaire it can be stated that the Dutch members of the four cooperatives do not fear a dilution of income rights in case of increased of foreign membership. However the interviews with several member representatives made clear that there were some uncertainty at the Dutch members about the equity and their own build capital, but after motivating the chosen strategy these uncertainties disappeared.

3.3 Management

All four companies agreed on the statement that managers of cooperative firms abroad prefer to run foreign operations like an IOF.
The statement implies that managers of foreign operations are better informed about the competitive environment of the cooperative firm and they sense that there is a need to strengthen the competitive position of the cooperative firm abroad. However the internal development of new business units could not be identified properly, in the case of CRV managers of foreign operation have a clear role in initiating acquisitions abroad.
The managers of the foreign subsidiaries are sometimes of Dutch origin and sometimes natives of the country, dependant of the mission of the subsidiary from point of view of

the Dutch cooperative. A Dutch manager implies that a strong connectivity is necessary for marketing the Dutch products, a local manager implies there is need for exploring market channels. But in both cases the managers prefer to run the foreign operations like an IOF.

3.4 Future developments

As indicated before, internationalization and growth is playing an important role in the strategy of all cooperatives. It makes difference which strategy will be chosen on short term or on long term. On short term the cooperatives will choose for IOF's abroad instead of the cooperative, due to different reasons described before.

On long term two of the four cooperatives intend to merge with other cooperatives. There are several arguments:

- Competition (if you can't beat them then join them)
- There should be a balance between the members and the size of the company

Both arguments are valuable for compensating the disadvantages of foreign membership.

References

Interviewees

Mr. Theo Ammerlaan **Coforta** (Chairman of Coforta)
Mr. Jos Buiting **CR-Delta** (Manager of Communications and Association Affairs, CR-Delta)
Mr. Meine Siebenga **CR-Delta** (Chairman of the Board of Cooperative CR-Delta)
Mr. Zoltan Matrai Agroproject **CR-Delta** (Director CR Delta, Hungarian)
Mr. Atze Schaap **Friesland Campina** (Director Cooperatives Affairs of FrieslandCampina)
Mr. Piet Boer **FrieslandCampina** (Chairman of the Board of Cooperative and Supervisory Board of FrieslandCampina)
Mr. Henk Wassink **Agrifirm** (Manager Communication and Cooperative Affaires of Agrifirm Group)
Mr. Otto van den Linden **Agrifirm** (Managing Director of Agrifirm Poland/ Agrifirm Hungary)
Mr. Jos de Kleine **Agrifirm** (Board member of Agrifirm)

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Website

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www.agrifirm.nl
www.cr-delta.nl
www.frieslandcampina.com
www.thegreenery.com

Appendix

Appendix 1 – Questionnaire

	STATEMENTS	Totally Disagree	Disagree	Neutral	Agree	Totally Agree
1	Cooperative going international will choose a different institutional arrangement:					
	• In dealing with suppliers (agricultural entrepreneurs)					
	• Due to the differences in the institutional environment abroad (bank, extension services)					
	• Due to the differences in the production systems abroad.					
2	Cooperative going international are more likely to have diverse ownership structures like joint ventures					
3	Cooperative going international are not likely to invite their foreign farmer-suppliers to become members:					
	• Because domestic members fear a dilution of income rights					
	• Because the foreign members lead to extra costs of operating the Cooperative (language, distance, cultural and legal issues).					
4	Managers of Cooperative firms prefer to run foreign operations like an IOF instead of a Cooperative.					
5	Foreign subsidiaries are more likely to be set up as profit centers, pursuing a profit objective and not a supplier benefit objective.					

Appendix 2 – Interview questions

The interview will focus on:

1. History, historical, cultural and sociologically aspects and organisation of the Cooperative;
2. Development of the Cooperative abroad
3. Activities of the Cooperative, both primary activities and others including non-economic services;
4. Business structure (ownership structure, membership, institutional arrangement, relation with members)
5. Business performance of the Cooperative
6. Other relevant issues.

Interviewed persons:

- A manager of the Cooperative
- A (former) Cooperative board member
- A manager of the Cooperative in outside country (Hungary)

1. History:
   - Can you short tell us about the history, structure and development of the Cooperative?
   - What is the relevance of historical, cultural and sociologically aspects in the development of the Cooperative?
   - In which countries is the Cooperative present?
   - Which types of membership exist in this Cooperative?
     - Strong membership (member and delivery)
     - Weak membership (member but no delivery)
     - Shadow membership (no member, only delivery)
   - Number of different Cooperative members and development in members in the last ten years?

2. Development of Cooperative abroad
   - When did the Cooperative go international?
   - Type of relationship with the Dutch Cooperative

3. Activities of the Cooperative:

   - What is the development of the turnover in recent years? Annual report and accountants (2010 in our possession).
   - What is the relationship between the Cooperative and other actors in the food chain?

- Does the Cooperative have a role in possible primary activities
- Does the Cooperative provide others including non-economic services as mentioned below to its members or the region? Why yes/no

4. <u>Business structure (ownership structure, membership, institutional arrangement, relation with members)</u>
    - What was the reason your Cooperative has chosen for an international expansion?
    - How did the decision-making take place to go international?
        - Who took the initiative? Board of directors or the manager?

- Ownership structure
    - Does the international branch have a different ownership structure than the Dutch Cooperative? If yes, how does the ownership structure look like? E.g.:
        - Cooperative
        - International Operating Firm
        - Diverse ownership
            - Joint venture
- Membership
    - Which types of membership exist in this Cooperative abroad?
- What are the benefits for members of the Cooperative?
    - Are the foreign producers also members of the cooperation?
        - In case yes do they have the same right as the Dutch members?
        - In case no what is the relation with the famers-suppliers?
    - Did the fear of dilution of income rights play a role that the Cooperative did not invite foreign farmer-suppliers to become members?
    - Are you working with contracts?
        - In case yes are they valid for more years?
    - What are the criteria's for foreign farmers to become members or suppliers?
    - What are the opinions of Dutch members about the chosen ownership- and compensation structure for the foreign famers-suppliers?
    - Making foreign suppliers members does necessary lead to extra costs? (language, distance, cultural and legal issues)

- Institutional arrangement
    - What were the reasons/objectives (not) choosing for an Cooperative structure abroad?
    - What are the advantages and disadvantages choosing Cooperative / IOF ownership structure?

- Why does (not) the foreign detachment of your Cooperative have a supplier benefit objective?
- Did the different institutional environment play a role in the decision making? (such as bank, credit organization, extension services, farmers union)
    - In case yes, please specify.
- Did the differences in the characteristics of the transaction play a role in the decision? (such as specific investments, environmental and behavioural uncertainty, and coordination needs)
    - In case yes, please specify.
- Is there a policy, which supports or hinder choosing a specific ownership structure.
    - Is it EU, national or regional strategy?
- What needs to be changed to reach an idealistic situation?
- Are there Dutch or national managers working abroad? Why?
- Are foreign investments more risky than Dutch investments? If yes, does it mean that foreign investment require a different type of financing? In case yes, what type of finance?

- Relation with members
    - What are the consequents of the different business models on the relationship with the farmers-suppliers?
    - Could you compare the relationship of the Cooperative with the farmers-suppliers between the Nederland and the foreign detachment?

5. <u>Business performance</u>
    - Who are the competitors for this cooperation?
    - If the firm were a Cooperative, would this make difference in the executed activities? Would this make difference in the profit of the firm?

6. <u>Closing of the interview:</u>
    - Did we discuss the most important issues? Do you want to add something?
    - We will make a draft interview report. We would like you to review it.
    - Would you like to review the draft report (including analysis by comparison of the countries, discussion and conclusions)
    - Inform the respondents about the upcoming stakeholder workshop that will be held in the European Parliament, at the end of September. We want to send the respondent an invitation.

Thank you very much for your time and contribution!