Producer organisations in value chains: accommodating multiple interests

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Cooperatives and other POs

Producer Organisation

Cooperative

Farmer association

Recognized PO

Jointly owned business
Defining Cooperatives

- Functional definition:
  - An organisation that carries out economic activities on behalf of its producer-members

- Organisational definition:
  - An organisation combining member-benefit, member-control and member-finance

Theoretical perspectives on cooperatives

Two main theoretical perspectives in economics:

- The cooperative as a vertical integration of otherwise autonomous firms. Its primary objective is to conduct an optimal marketing program for its members.

- The cooperative as an independent business enterprise. Its primary objective is to maximize benefits to its owners.
What do we know about the role of cooperatives in value chains?

- Traditional reasons for farmers to set up a cooperative were mainly countervailing power, economies of scale and logistic efficiency.

- Modern reasons for cooperatives also include quality management, co-innovation and sustainability management.

- From bargaining power to vertical coordination.
Key functions of cooperatives in value chains

**Producer perspective**
- Bargaining / sales
- Reduction transaction cost
- Information sharing
- Logistic efficiency
- Quality management
- Co-innovation

**Buyer perspective**
- Bargaining / purchase
- Reduction transaction cost
- Information sharing
- Logistic efficiency
- Quality management
- Co-innovation
- CSR activities
Where do interests of cooperatives and buyers coincide and where not?

**Producer perspective**
- bargaining / sales
- reduction transaction cost
- information sharing
- quality management
- co-innovation
- logistic efficiency

**Buyer perspective**
- Bargaining / purchase
- reduction transaction cost
- information sharing
- quality management
- co-innovation
- logistic efficiency
- CSR activities
Joint interest of producers and buyers

- Logistic efficiency
- Co-innovation
- Reduction of transaction costs
- Quality control

This does not mean that benefits will be equally distributed among producers and buyers

- Power determines distribution!
### What do we know about POs in Dairy?

<table>
<thead>
<tr>
<th></th>
<th>Milk deliveries (million tons)</th>
<th>Cooperatives (%)</th>
<th>Recognized POs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>32.7</td>
<td>67</td>
<td>37</td>
</tr>
<tr>
<td>France</td>
<td>25.8</td>
<td>54</td>
<td>18</td>
</tr>
<tr>
<td>Netherlands</td>
<td>13.5</td>
<td>86</td>
<td>0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3.0</td>
<td>65</td>
<td>44</td>
</tr>
<tr>
<td>Spain</td>
<td>7.0</td>
<td>36</td>
<td>16</td>
</tr>
</tbody>
</table>
Legal forms of POs

- Multiple legal forms are allowed, but cooperative is dominant
- Few countries (NL, B, ES) prescribe cooperative
- Some countries allow associations
- Most countries also allow Private Limited Companies (Ltd, SARL, GmbH, Oy, Spółdzielnia)
- Germany: special legislation on Erzeugergemeinschaften / Erzeugerorganisationen
Core activities of dairy POs
(n=63, or 23% of all dairy POs)

Do you want to develop the PO into a milk processing cooperative?

<table>
<thead>
<tr>
<th>Member State</th>
<th>Yes</th>
<th>No</th>
<th>N.A.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>0</td>
<td>22</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>FR</td>
<td>0</td>
<td>13</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>IT</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>ES</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Rest</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>All</td>
<td>11</td>
<td>47</td>
<td>5</td>
<td>63</td>
</tr>
</tbody>
</table>

Main reason for not developing into a milk processing cooperative: Investment cost are too high

What makes coops/POs and buyers do not realize their joint interests?

- Power differences
- Differences in risk attitudes
- Differences in dependencies (due to size and specific investments)
- Misunderstanding of each others interests
- Lack of trust
- Lack of technical support
What makes coops/POs not realize its potential?

- **Internal challenges:**
  - Low financial contribution
  - Weak leadership capacity
  - Lack of commitment
  - Member heterogeneity
  - Compliance with quality requirements

- **External challenges**
  - Lack of legitimacy
  - Uncertainties as to market of policies
Some issues of internal governance

- Finding good managers:
  - Payment
  - Room for entrepreneurship
  - Career perspective

- Finding good directors (=board members)
  - Well-educated farmers
  - With personal ambitions
  - Regular re-election
  - Use member council
The cooperative is a complex organisation

- Cooperative is both an association of members and a jointly-owned enterprise

- Members have a threefold relationship with the cooperative:
  - Transaction
  - Finance
  - Control
<table>
<thead>
<tr>
<th></th>
<th><strong>Traditional Cooperative</strong></th>
<th><strong>Hybrid Cooperative</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transaction</strong></td>
<td>Only member transactions</td>
<td>Cooperatie is diversified</td>
</tr>
<tr>
<td></td>
<td>Members can deliver all products</td>
<td>Member has delivery agreement</td>
</tr>
<tr>
<td></td>
<td>Service at cost</td>
<td>Obtaining profit</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Only members provide equity capital</td>
<td>Also non-members provide equity capital</td>
</tr>
<tr>
<td></td>
<td>Unallocated equity</td>
<td>Individual equity shares</td>
</tr>
<tr>
<td></td>
<td>Open membership</td>
<td>Closed membership</td>
</tr>
<tr>
<td></td>
<td>Persons as members</td>
<td>Business as members</td>
</tr>
<tr>
<td><strong>Control</strong></td>
<td>One legal entity</td>
<td>Two legal entities</td>
</tr>
<tr>
<td></td>
<td>Only members in board</td>
<td>Outside experts in board</td>
</tr>
<tr>
<td></td>
<td>One member one vote</td>
<td>Proportional voting</td>
</tr>
<tr>
<td></td>
<td>Homogeneous membership</td>
<td>Heterogeneous / Multistakeholder membership</td>
</tr>
</tbody>
</table>
Traditional Model of Internal Governance

- General Assembly
  - Election
  - Appointment and Control
  - Supervisory Board
    - Election
    - Control
  - Management
Can one combine integration and differentiation in cooperatives?

- Managers prefer integration
  - Uniform products → scale economies
  - Reduced information processing
  - Easier decision-making

- Members prefer differentiation
  - Members are autonomous entrepreneurs
  - Member differ in their resources and capabilities
  - Members differ in their interests and aspirations
## Leveraging Complexity versus Suppressing Complexity

<table>
<thead>
<tr>
<th></th>
<th>Leveraging Complexity</th>
<th>Suppressing Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managing Perspectives</strong></td>
<td>Staff with capacity for multiple perspectives</td>
<td>Staff focusses on uniformity</td>
</tr>
<tr>
<td><strong>Managing Interaction</strong></td>
<td>Promoting interactions among members</td>
<td>Control over interactions</td>
</tr>
<tr>
<td><strong>Managing Standards</strong></td>
<td>Establishing high standards and norms of acceptable practice</td>
<td>Strong uniformity of standards</td>
</tr>
<tr>
<td><strong>Managing Commitment</strong></td>
<td>Develop member commitment through value-based language</td>
<td>Impose member commitment through rational language</td>
</tr>
</tbody>
</table>
Conclusion

- Concept of “PO” is new and contested, while “cooperative” is well institutionalized.
- POs fit in the broader trend toward (vertical) differentiation and horizontal integration in relatively small groups.
- POs can strengthen their position if they combine bargaining with vertical coordination with buyers.
- Buyers can build strong partnerships if they acknowledge the complexity of POs / cooperatives.
- Power differences in the value chain continue to be an issue.