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# Support for Farmers' Cooperatives

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## *Case Study Report* **Sokołów – collaboration of Danish Crown and HKScan**

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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 on the international collaboration in Poland between Danish Crown and HKScan has been written.

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 and comparative analysis 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 directors and managers of Sokołów, HKScan and Danish Crown as well as other stakeholders (suppliers and lobbyists) for their willingness to collaborate in this project and to share information on structure and strategy of their cooperatives.

## Table of contents

1. Introduction.....	6
1.1 Objective and research questions .....	6
1.2 Analytical framework.....	6
1.3 Method of data collection .....	7
1.4 International collaborations between cooperatives in the European meat industry .....	8
1.5 Structure of the report.....	8
2. Structures of the companies involved .....	9
2.1 HKScan .....	9
2.1.1 History.....	9
2.1.2 Ownership structure .....	10
2.1.3 Operational structure .....	11
2.2 Danish Crown .....	12
2.2.1 History.....	12
2.2.2 Ownership structure .....	14
2.2.3 Operational structure .....	14
2.3 Sokołów.....	16
2.3.1 History.....	16
2.3.2 Ownership structure .....	16
2.3.3 Operational structure .....	17
3. History of the collaboration – path to the Sokołów purchase .....	18
4. Co-operation in Poland and Polish meat sector .....	20
4.1 Cooperation among Polish pig farmers .....	20
4.2 Meat sector in Poland.....	20
5. Survey results .....	22
5.1 Finland/Denmark.....	22
5.2 Poland.....	24
5.3 Conclusions comparative analysis.....	27
6. Overall conclusions.....	28
References.....	30

## List of abbreviations

CAP	Common Agricultural Policy
DC	Danish Crown
HK	HKScan, HK Ruokatalo
PO	(recognized) Producer Organisation
IOF	Investor Owned Firm



# 1. Introduction

## 1.1 Objective and research questions

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 cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides information on cooperatives’ behaviour in exporting (or not-exporting) cooperative model abroad and also on collaboration between cooperatives in foreign country. Our case is Polish slaughterhouse company Sokołów that is 50/50 owned by Danish Crown and Finnish HKScan.<sup>1</sup>

Based on our previous work (Bijman et. al. 2011) concerning transnational and international cooperatives there seems to be tendency to have members only in the original mother country of the cooperative. When operating abroad it seems very common to act as IOF (investor owned firm) and the foreign suppliers are treated only as suppliers. In this case study we will clarify the reasoning behind the treatment of foreign suppliers compared to domestic suppliers/members.

The case is interesting for several reasons. Firstly, Sokołów is an IOF whose suppliers are not members in mother cooperatives. Secondly, this is also a case where two cooperatives are collaborating in the third country and acting differently than in the domestic market. Thirdly, the meat sector case is interesting also therefore that the consolidation process in the industry has been very rapid during the last decade. Thus, the amount of foreign suppliers has increased.

In this case study, the following research questions have been guiding the research. Firstly, what are the reasons for collaborating? Secondly, how are the mother cooperatives acting compared to their domestic market and what are their attitudes towards Polish suppliers and their possible cooperation. Interesting questions are: how the Polish suppliers are treated compared to Danish or Finnish/Swedish producers/members; why are the Polish suppliers not members in mother cooperatives; Could they be, i.e. is there any legal or statute based restrictions; and what if they were willing to apply a membership in mother cooperatives, how would the mother cooperatives react, and what could be the options? Thirdly, what are the attitudes of Polish suppliers towards Sokołów and mother cooperatives? In this context it is interesting to find out what would be the Polish suppliers’ willingness to form a producer group; would the Polish suppliers be willing to become members in mother cooperatives (or investing and owning Sokołów); what could be their opinions on joining the mother cooperatives; what is the impact of foreign cooperative owners; and are the Polish suppliers treated differently from other Polish suppliers of other companies or cooperatives (both international and domestic)?

## 1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the

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<sup>1</sup> In fact, HKScan is not a cooperative in traditional sense since it is publicly listed company. However, the major owner is a producer cooperative LSO that controls almost 70% of the voting rights.

role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

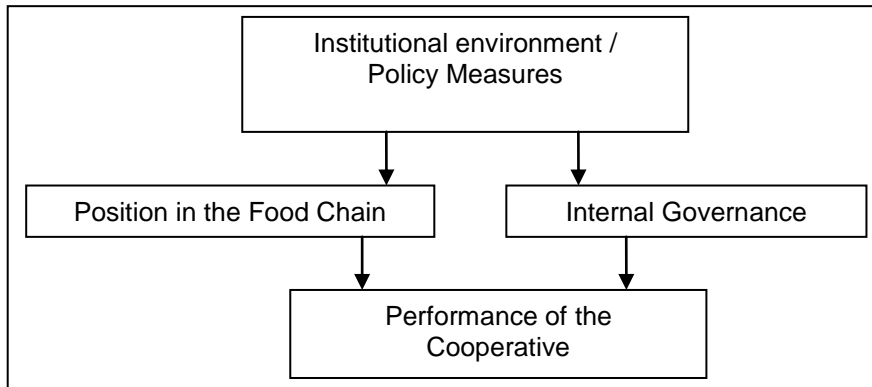


Figure 1. The core concepts of the study and their interrelatedness.

### 1.3 Method of data collection

The case study is based on multiple data sources. First of all, secondary data was used such as academic literature, country reports of the Support for Farmers' Cooperatives project, popular press and electronic media, various archives and other sources of information.

Additional information has been collected through personal interviews with various co-operative stakeholders in Poland and Finland. The Danish view has been brought into the report through the comment given to the draft report by Danish Crown directors and experts. For this particular study, the persons interviewed involve former and current board members as well as former and current professional management staff. In addition meat lobbyists and suppliers have been interviewed.

In Poland the interviewees were<sup>2</sup>: three Sokołów suppliers, two lobbyists and one Sokołów manager responding for the meat purchases. In Finland the interviewees were: former chair of BoD of HKScan (also former member of BoD of Sokołów), one current member of BoD of HKScan, current chair of BoD of LSO Osuuskunta (mother cooperative), member of Supervisory Board of LSO and CEO of LSO.

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<sup>2</sup> One of the suppliers was an individual farmer, not belonging to any producers group. He has a stock of 4-5 thousands pigs annually. Sokołów buys ca. 50% of his production, however he has no long term contract with Sokołów. The second interviewed farmer is a member of a producers group. This group has a capacity of 15 thousand pigs annually. It has its own breeding material and quality checking facilities. Production quality is of special importance for this producers group. This producers group sells 5% of their production to Sokołów, conditions are negotiated before the transaction. The third farmer has a stock of 1500, c.a. 50% of this is sold to Sokołów. He has the long term contract with Sokołów. As meat lobbyists, the leader of the steering committee of the Polish Meat Association (Polskie Mięso), and the director of Polish Pig Producers' Association (POLSUS) office in Warsaw were interviewed. From the Sokołów company, the vice-president of management board (responsible for raw material) was interviewed.



Standard techniques and approaches used in case study research were used in order to maximise reliability and avoid biases.

## **1.4 International collaborations between cooperatives in the European meat industry**

The consolidation process in European meat industry has been very rapid during the last couple of decades. Firstly, the domestic consolidation processes have taken place. Secondly, the growth options from abroad have been sought. The consolidation in the meat sector has mainly happened through acquisitions, not so much through mergers which have been a common case in dairy industry. The case cooperatives/companies have also been very active in consolidation processes. Currently, Danish Crown is the second largest and HKScan the fifth largest meat company in Europe.

Traditionally (and still), meat cooperatives and companies have been collaborating in processing of by-products or services necessarily needed for core business. Typical examples are slaughtering of sick animals and taking care of hides and products that are used in feeding stuffs or non-food production. However, the examples of collaboration in core business are very rare. Thus, our case of DC and HKScan collaboration in Poland is a unique case.

## **1.5 Structure of the report**

Firstly, the structures of the firms involved will be described in Chapter 2. This part of the report will be based on companies' Internet pages, annual reports and other literal material available (e.g. company histories).

Secondly, the path to the purchase of Sokołów by DC and HKScan will be described in Chapter 3. This is again based on the same material as the structures added by key persons' interviews. Some background information from Polish cooperation and meat sector are given in Chapter 4.

The core of the report consists, however, of the survey results focusing on the supplier/membership issues and the research questions presented in Chapter 1 objectives. These results will be presented in Chapter 5.

## 2. Structures of the companies involved

This chapter provides an overview of the companies concerned. Special attention is paid to the description of the history and development of the current structure, ownership structure as well as on operational structure.

### 2.1 HKScan

Firstly, the Finnish HKScan is described.

#### 2.1.1 History<sup>3</sup>

HKScan is a company that has been shaped by many corporate takeovers and mergers. The company developed and grew in south-western Finland, where agriculture and cattle farming have traditionally been strong. The origin of the company can be considered as dating back to Lounais-Suomen Osuusteurastamo (nowadays LSO Osuuskunta), a slaughterhouse cooperative founded by some 20 cattle farmers in 1913. This was one of the 23 cooperative slaughterhouses in Finland that have ever existed.

The LSO was already in the beginning at least in some sense internationally oriented. The cooperative engaged in extensive wholesale operations, beginning to export meat towards the end of the 1910s. The first exports were naturally to Sweden. Later in the 1930s, it exported millions of kilos of bacon to the United Kingdom and, towards the end of the decade, beef to Central Europe.

The consolidation process among Finnish cooperative slaughterhouses has led to the current situation where there are four cooperatives of which three (LSO included) are only holding cooperatives and one is also involved in collecting business. Concerning LSO, the most important domestic consolidation phases have been in 1964, 1971 and 1989 when LSO took over other provincial meat cooperatives (Länsi-Uudenmaan Osuusteurastamo, Etelä-Suomen Osuusteurastamo, Satahämeen Osuusteurastamo SOT) that were the closest neighbours to the LSO region. The merger with SOT was interesting also therefore that the cooperatives have started their collaboration already more than ten years earlier by establishing a joint limited liability company Broilertalo Oy to take care of broiler slaughtering and processing. In the 1980's the cooperative was part of a more extensive national reorganisation within the industry, with consumer cooperatives (OTK 1981 and SOK 1985) winding down their meat operations.

The next important phase was in the end of 1980's when the lack of capital due to the decreasing number of supplier members (and increasing burden to a single member) as well as increased indebtedness due to the former acquisitions meant that the cooperative started to think over the business model. Similarly to the slaughtering cooperatives in the Northern Finland, the LSO cooperative established a limited liability company LSO Foods Oy in 1988 that was owned by the cooperative LSO as well as by private investors (mainly producers). The slaughtering, processing

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<sup>3</sup> The basic description relies very much on HKScan Internet pages. In addition, the LSO history written by Suistoranta (1989) is used as a reference.

and marketing were moved to the company whereas collecting and supplier services were left to the cooperative.<sup>4</sup>

In the beginning of 1990's the company LSO Foods Oy acquired Helsingin Kauppiaat Oy (in 1991) and Kariniemi Oy's poultry division (in 1993). These acquisitions strengthened the cooperative's presence in the consumer market and gave it some of the best-known brands in Finland. After these processes the new company name, HK Ruokatalo Oy, was introduced at the beginning of 1997. Few months later the company was listed on the Helsinki stock exchange (Nasdaq OMX). As part of this process the collecting and supplier services held by cooperative were moved to LSO Foods Oy that was now reorganised as a daughter company of HK Ruokatalo. The role of LSO cooperative has since that been only to act as a holding cooperative.

HK Ruokatalo embarked on an internationalisation process with the acquisition of a majority holding in Estonian-based AS Rakvere Lihakombinaat in summer 1998 and AS Tallegg in 2001 and a minority holding in Sokolów S.A. of Poland in 2002. In 2004 HK Ruokatalo and Danish Crown started a strategic co-operation in Poland and finally in 2006 they had acquired Sokolów's entire share capital. In January 2007, HK Ruokatalo Group went to Sweden by acquiring Scan AB, which is the largest meat company in Sweden. The substantial expansion of the group's international business caused a need to re-name the company from HK Ruokatalo Group to HKScan Corporation. As part of this purchase, the Swedish meat cooperative, currently Sveriges Djurbönder ek. för., became a co-owner of the new company. In 2010 became Rose Poultry A/S, the largest poultry company in Denmark, a part of the group through an acquisition. The group is now active in nine Northern European countries.

## 2.1.2 Ownership structure

The major owners of the publicly listed company HKScan are listed in the Table 1.

Table 1. Ten largest owners of the HKScan, Situation 31st March 2012.

	Share (%) of the shares votes	
LSO Osuuskunta	34,88	69,25
Sveriges Djurbönder Ek. För.	12,54	12,39
Keskinäinen työeläkevakuutusyhtiö Varma	6,82	2,38
Keskinäinen Eläkevakuutusyhtiö Tapiola	1,87	0,65
Fim Fenno Sijoitusrahasto	1,58	0,55
Maa- ja metsätaloustuottajain Keskusliitto MTK ry	1,52	0,53
Sijoitusrahasto Alfred Berg Finland	1,39	0,48
Sijoitusrahasto Taaleritehdas Arvo Markka Osake	1,18	0,41
Danish Crown A/S	0,98	0,34
Valtion Eläkerahasto	0,91	0,32

The shares are divided in two series: the A shares that are publicly listed, and the KII shares that are owned by mother cooperatives LSO osuuskunta (87,7% of KII series) and Sveriges Djurbönder (12,3% respectively). The KII series gives twenty times as much voting rights as A shares. Therefore, the largest owner, LSO Osuuskunta, has an absolute majority of the voting rights. Of the other eight largest owners six are Finnish institutional investors, mainly insurance

<sup>4</sup> The hybridisation process of the cooperative is more thoroughly described in another case study of this project (Pyykkönen and Ollila 2012).

companies. The last two in the “Top ten” list are the competitor/collaborator Danish Crown and Finnish Farmers’ Union MTK.

Some of the interviewees were thinking that in the future the joining of the two different series must be considered in order to be a reliable actor in the Exchange. The strong role of the cooperatives that exceeds the owner share may decrease the attractiveness of the company from institutional investors’ perspective.

In the mother cooperative LSO Osuuskunta, there are 1,670 members of which almost half are cattle farmers (mainly dairy), another almost half pig farmers, and a small minority (less than 10%) poultry farmers. However, the pure meat producers’ invested capital into the cooperative is much larger than their share of votes. The capital to be invested is related to the value of the marketed meat production such that a member has to invest 2.000€ for every 20.000€ production value. An average LSO pork producer in Finland has thus to invest around 20.000€ into his/her own cooperative. At the same time a typical dairy producer’s investment obligation is only the minimum share, i.e. 2.000€.

In the long run, this imbalance between producers (especially when the pork is the most important for HKScan) may cause changes in the governance of the cooperative (see more thorough consideration of this “dilemma” in another case study of this SFC project Pyykkönen and Ollila 2012). Even though the cooperative doesn’t anymore have any business operations but acts only as a holding cooperative there still exists a connection between membership and patronage. It is in LSO’s as well as in HKScan’s interest that members would be active producers. Thus, the LSO statute orders that the membership in LSO requires production contract with HKScan (or actually with its subsidiaries or partnership companies).

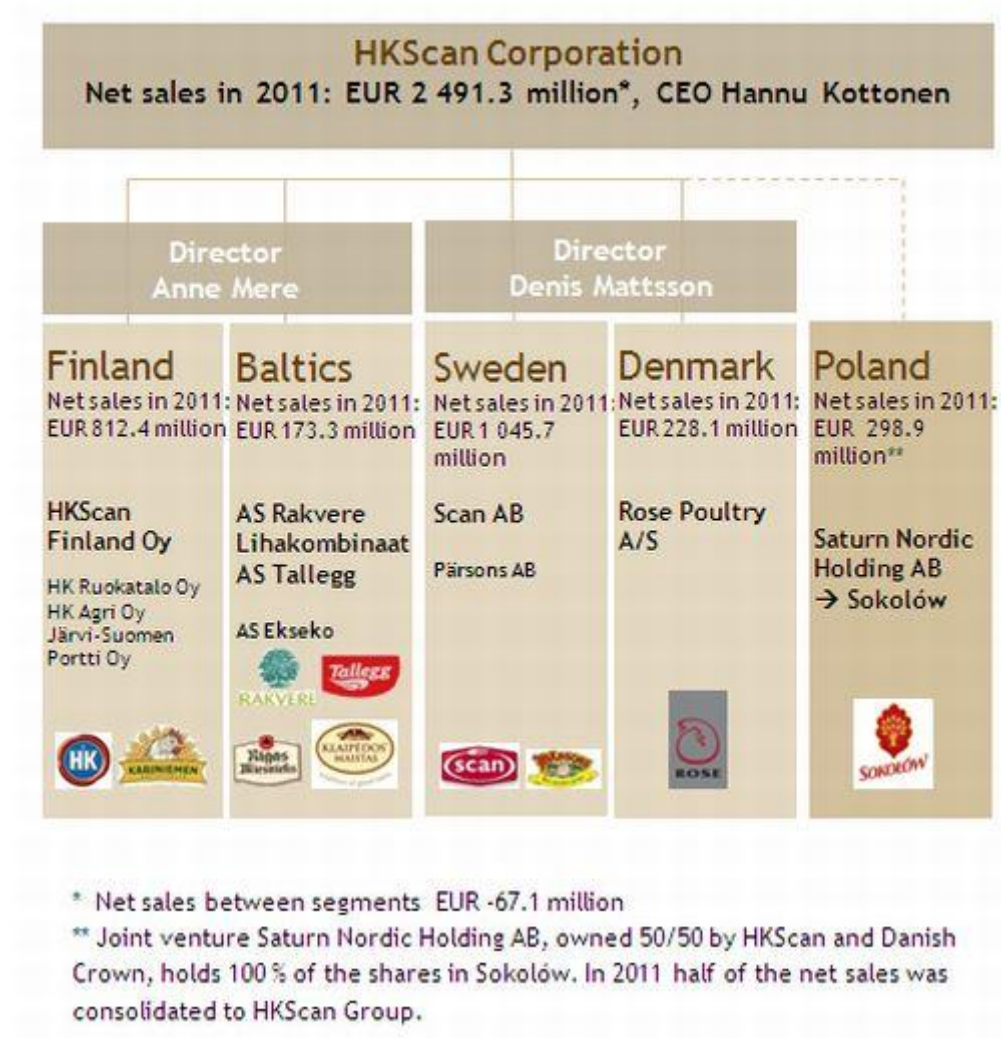
Instead of General Assembly there is Member Council which consists of 40 representatives elected from 8 election districts. Every member has one vote in elections. Member Council appoints the members of the Supervisory Board which again appoints the Board of Directors.

### **2.1.3 Operational structure**

The company’s home market consists of Finland, Sweden, Denmark, the Baltics and Poland. HKScan produces, sells and markets pork, beef and poultry meat, processed meats and convenience foods to retail, the HoReCa sector, industry and export customers.

Since the beginning of 2007, the company’s business was divided into four business segments: Finland, Sweden, the Baltics and Poland. Denmark became the fifth segment in autumn 2010. HKScan’s business in Finland, Sweden, Denmark and the Baltics is carried out mainly through wholly owned subsidiaries while the business segment of Poland consists of the company’s 50 percent indirect holding in Sokółów S.A. The turnovers and the most important subsidiaries by market areas are presented in Table 2.

Table 2. The structure of HKScan.



The company has very large market shares especially in Finland and in Sweden.

## 2.2 Danish Crown

Secondly, the Danish Crown is described.

### 2.2.1 History<sup>5</sup>

The first Danish co-operative pig slaughterhouse was established in the town of Horsens in 1887. During the following 40-50 years a large number of pig slaughterhouses were established around the country. The sector was from the very beginning very export oriented (see Danish country report) the UK bacon export having a major role. Already in 1890 there were 17 pig

<sup>5</sup> The basic description relies very much on Danish Crown Internet pages. In addition, DC annual reports from years 1995/96-2010/11 as well as literature (Nilsson and Büchmann Petersen (2001)) has been used.

slaughtering cooperatives in Denmark. At the most, in 1950's there were more than 60 slaughterhouse cooperatives.

In 1960 the co-operative slaughterhouses began to merge in order to acquire more strength to handle functions such as sale, marketing, and product development. In the beginning of 1980's there were still almost 20 independent cooperatives.

Danish Crown was originally formed in 1887 and developed itself by continuous mergers and acquisitions. The present name Danish Crown – originating from one of the many old cooperatives – was reintroduced by one of the largest mergers which took place in 1990. .

In 1996, Danish Crown acquired the cattle slaughterhouse Dane Beef. By including cattle producers the membership became less homogeneous. The solution was to divide the membership into two strictly separated categories, each with more homogeneous interests.

Another important development in the cooperative's history was the acquisition of Tulip International A/S totally for DC in 1998. Tulip International<sup>6</sup> was a company that concentrated on food processing (bacon, sausages, ready meals, convenience food). Earlier DC had been only a majority co-owner (directly and through ESS-Food which at that time was a 2nd tier cooperative owned by DC and two other remaining cooperatives and which had been established for meat trading overseas). As a first step, DC increased its stake in Tulip International by acquiring 41% of its shares from a number of institutional investors. In year end, it was also agreed that ESS-Food transferred its shareholding in Tulip to DC, which then owned all Tulip International shares. As well, ESS-Food became 100% owned subsidiary of DC in 1999 when DC acquired the shares of ESS-Food from Tican and Steff-Houlberg.

After twenty years, in the beginning of the new century and after the last mergers of Vesttyske Slagterier (in 1998) and Steff-Houlberg (in 2002) into Danish Crown there were only two cooperative slaughterhouses in Denmark. In addition to giant DC, there is Tican. Thus, a large proportion of the original co-operative slaughterhouses were included in the new Danish Crown.

Even though Danish Crown had been very internationally oriented cooperative due to its export as well as due to Tulip International (as well as e.g. DAT-Schaub, one of the DC subsidiaries) that had also processing and suppliers outside Denmark, the production was still in the beginning of new decennium based mostly on Danish production. Further steps in this direction i.e. establishment and acquisition of slaughtering and processing plants outside Denmark were taken in Poland and in Germany that both are important markets for DC. Tulip Food Company acquired in 2004 slaughtering and processing plant Oldenburger Fleischwarenfabrik, quite near Danish border.

In Poland, DC together with Finnish HK Ruokatalo acquired Sokołów in 2004-2006 (more thoroughly in Chapter 3). In 2007 Danish Crown acquired two pork slaughterhouses from Sweden – KLS in Kalmar and Ugglarps near Trelleborg – and part of the cattle slaughterhouse Team Ugglarp in Hörby, in which Danish Crown holds a 51% stake. The collecting and slaughtering are now joint to a subsidiary named KLS Ugglarps whereas the processing units where joint to the Tulip Food Company.

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<sup>6</sup> Tulip International A/S was formed in 1990 when Nor meat, Danepak, Jaka merged with the processing activities of Tulip Slagterierne (cooperative). Tulip Food Company was formed in 2002 when Tulip International merged with Danish Prime that was a meat cutting and convenience food company. As part of this arrangement also Tulip Ltd. was established to take care of Tulip International's UK businesses.

The most recent steps have been taken in Germany. In 2010 Tulip Food Company acquired the family-owned poultry company Nietfeld Feinkost from Dinklage. In 2011 DC acquired DS Fleisch from Oldenburg that was 4th largest German pig slaughterhouse.

### **2.2.2 Ownership structure**

In 2010 the General Assembly (Board of Representatives) of the cooperative accepted an important change in the operative structure of the cooperative. All the slaughtering, processing and marketing operations were moved to a limited company named Danish Crown A/S that is totally owned by the cooperative society 'Leverandørselskabet Danish Crown Amba'. The cooperative still takes care of selling the member's animals to the company.

The Board of Representatives is elected by members of the cooperatives. Currently, there are approximately 9.500 members. Altogether there are 198 representatives of whom approximately 180 must be pig farmers and 18 cattle farmers. They have been elected in four electoral districts of which three are for pig farmers and one for cattle farmers. The electoral districts are further divided to local districts. All electoral districts are located in Denmark and they have been defined in the Statute. The Board of Directors consist of ten members elected by members (three from each pig district and one from cattle district), two outside members named by Board of Representatives and three elected by employees.

The members have obligation (and the right) to deliver to the Company their entire production of animals, although this can be modified to cover only 80-85%. The members are obliged to have membership account (that is not paid interest for). The membership account is build up during the first eight years by reducing DKK 0,15/kg from the annual residual payment. Thus, if the delivery amount were 500.000 kg/year the fully paid membership account would be around 80.000€. In comparison with LSO Osuuskunta it is exactly a similar level when compared to the production.

### **2.2.3 Operational structure**

As a business the Danish Crown Group consists of parent company and subsidiaries. In parent company there pork and beef divisions. The subsidiaries and the operational structure of Danish Crown A/S are presented in Figure 2.



Figure 2. Operational structure of Danish Crown.

Parent Company (pork and beef divisions) includes:

- 18 pig slaughterhouses and cutting plants
- 7 cattle slaughterhouses and cutting plants (including one in Germany)
- 2 departments for retail-packed meat
- 2 distribution departments/fresh food terminals

With turnover approx. 7.0 bn € Danish Crown is the second largest meat company in Europe. There totally 23,500 employed in DC of which 10,500 in parent company. The share of employees abroad has increased sharply during the last decade. Partly it is due to acquisitions but partly it is due to shifting roles between countries. The employment cost are much higher in Denmark than in Germany that has increased the number of DC employees and the role of German plants.

DC is a food company focusing on processed meat products as well as fresh meat. It slaughters more than 22 million pigs annually whereas the number of slaughtered cattle is around 600,000. About 75% of the pigs and 50% of the cattle is slaughtered in Denmark.



## **2.3 Sokołów**

Thirdly, the Polish Sokołów is described.

### **2.3.1 History**

The Meat Establishments of Sokołów (Zakłady Mięsne Sokołów) were set up in 1992 as a result of transforming the meat industry enterprise in Sokołów Podlaski into the sole-shareholder company of the State Treasury. Of 20 May 1992 the Minister of privatization acting at the request of the director and the employees council converted a state enterprise into the joint-stock company under the name "Przedsiębiorstwo Przemysłu Mięsnego" S.A. The entire share capital of the company was taken up by the state treasury. The company was formed in accordance with the act from 13 July 1990 on the privatization of state enterprises.

On the 10 of March 1993 the general meeting of shareholders of the company passed a resolution on the amendments of the statute. The business name changed. From 16 March 1993, i.e. for the day of writing down the amendments to the register of companies, the Company operated under the name "Sokołowskie Zakłady Mięsne" S.A. By virtue of the commission decision of securities from 14 May 1993 No. RF-411-5-53-901/93 the Company got approval for the introduction to the public turnover of 1,750,000 company shares. In the period from 7 to 21 June 1993 of 1,050,000 company shares, constituting the 60% of the share capital were offered for the sale within the public offer.

In 1993 company shares made their debut on the Giełda Papierów Wartościowych S.A. (the Warsaw Stock Exchange) as the first company of the meat industry. A process of establishing the capital group started. In March 1999 the company merged with meat establishments in Koło, forming the company of Sokołów S.A. In 2000 a consolidation of domestic leaders of the industry took place as the Group of Sokołów S.A. merged with the Farm Food Group S.A. As a result one of biggest enterprises of the meat processing industry was created, under the name the Capital Group of Sokołów S.A. After completion of group the deep restructuring was introduced (e.g. implementing the specialization of production at units of the Group, elaborating the own development program of breeding of the brood stock). Sokołów became one of leaders and of precursors of changes taking place in the meat industry in Poland.

In 2001 Sokołów S.A. set up the program "Razem w Przyszłość" ("Together in Future"). It is the program of brood breeding and improvements of the quality of the pork raw material. The main idea of the program is establishment the long-standing cooperation of all actors involved in the production of the raw material, i.e. producers of controlled genetic material, producers of piglets, producers of fodders, farmers, banks and Sokołów as recipients of the livestock. The program provides the market for its products and suppliers can join providing that can produce the best quality raw material. In 2002 all branches of Sokołów S.A. received an ISO 9001 certificate and AQAP-110 (entitling the NATO for the purposes of armies to the production of the meat).

### **2.3.2 Ownership structure**

In 2003 and 2004 Sokołów S.A. acquired of new strategic investors: the Finnish meat HKScan concern and the Danish Crown. Both investors formed the company Saturn Nordic Holding AB holding company and at present through this company they have a 100% of the shares of Sokołów S.A. In 2006 after conducting necessary procedures, Sokołów S.A. were withdrawn

from the stock exchange in Warsaw. In the same year the company purchased the meat company "Pozmeat" in Robakowo.

### **2.3.3 Operational structure**

Currently there are seven production units within the Capital Group of Sokołów S.A.: in Sokołów Podlaski, in Czyżew, in Koło, in Jarosław, in Tarnów, in Dębica and in Robakowo near Poznań. Subsidiaries also belonging to Sokołów S.A. are: Agro-Sokołów Sp. z o.o. with three large breeding farms; Sokołów-Service Sp. z o.o. - providing the technical support; Sokołów-Logistyka Sp. z o.o. – responsible for the transport and logistics.

The Sokołów Group has a substantial production potential, enabling the daily production of about 1200 ton of products. The brand Sokołów is the best recognized on the Polish meat market. The company offers products in all assortments: fresh pork, and beef meat and a wide range of processed products (ham, salami, cold cooked meat etc).

Export has an important role for the group. On average 25-30% of total sales volume is exported, mainly to the European Union, though a smaller amount is also exported to countries outside EU. The Sokołów S.A. production is held according to the system the HACCP, ISO 9001, IFS and BRC.

The Sokołów Company, according to annual conducted ranking by Rzeczpospolita (a daily), is one of leaders of the meat sector in Poland (recently at the second place, behind GK Animex Sp. z o.o.). The share of the company Sokołów S.A. in the entire meat production of in Poland is about 10%. A market research shows that willingness to buy products of the brand of Sokołów is growing. The company obtained awards: the Superbrand Title and the Superbrand 2009 Business, a gold medal and the Medal of MERCURE Rip-offs of the Poznań International Fair, PDŻ Sign - meet Good Food, Title of the Leader of the food quality, ACANTHUS AUREUS Medal, granted Medals at IFFA international fairs in Frankfurt a/M.

### **3. History of the collaboration – path to the Sokołów purchase**

When comparing the development in the Danish and Finnish meat industry in 1980-2000 we find a lot of similarities. The domestic consolidation was “finalised” around 2000 in both countries. If a company/cooperative wanted to increase there was not a lot of possibilities in home country and neither so much based on domestic production. In Denmark the only competitor left was Tican and the domestic production, even though increasing, not any more very fast. In Finland there were few competitors left but further consolidation would not have been possible. There were no possible partners and probably also the competition authorities would have opposed further mergers. The production was increasing but on the other hand the support system set some limitations for continuing growth in production.

Thus, the only way to become larger was to invest abroad. Both companies took their first steps to the nearest neighbours. DC – being based from the very beginning mainly on international sales - already had significant activities abroad including Tulip in the UK and Plumrose in the US.. DC started to invest further in the UK and later also to Germany and HK Ruokatalo (the name at that time) to the Baltic countries. The reasoning for expanding in the international market is quite clear: to increase competitiveness and strengthen the market position. The competitors had also become larger as well as the wholesalers and the retailers. In order to be competitive in this consolidating market both DC and HK wanted to grow. The rationale of DC investing outside Denmark is to expand its market base (which from the start has been dominated by export) by commanding also local national products at the various markets and to increase its international competitiveness and market position.

For the Finns, investing in the neighbouring countries (Baltic countries and Sweden) might also be seen as an attempt to protect domestic market and domestic producers. EU membership has opened the previously closed market and in order to be able to maintain the strong position in the domestic market the investments in the neighbouring countries might have been thought to give an opportunity to affect possible import competition from there. However, when investing in Poland this kind of reasoning cannot be justified.

Thus the next steps in the internationalisation process were taken in Poland. Poland had applied EU membership and was waiting for it. Thus, Poland’s importance was increasing in the European market. Poland was a large and also otherwise very interesting market. The US meat company had already invested in Poland (Smithfield’s Animex acquisition) and furthermore the internationally oriented large retailers like Tesco were present in Poland. This was not the case in Denmark and in Finland.

Thus, Poland offered an interesting and important market as well as an opportunity to learn the behaviour of international competitors in the food chain especially for the Finnish partner. The opportunity occurred when LRF (Swedish Farmers’ Union and Swedish Meats) and its affiliates decided to sell their shares in Sokołów. LRF had invested in 1998 into Farm Food SA in Poland. The merged Sokołów SA (with Kolo) started to publicly look for a foreign strategic investor, just like the other meat companies. They were inviting the foreign investors either present in the market or want to enter the market. LRF took the challenge and acquired 21% share of Sokołów. A bit later, in 1999, LRF established a consortium where its subsidiary Lantbrukarnas Ekonomi bought 10% of shares and consortium member Swedish Meats bought an additional 9% share of Sokołów. The Swedish investors had also an active role in further merger of

Sokołów and Farm Food in 2000. After this merger the Swedish investor group had 40% of the shares.<sup>7</sup>

However, soon after that the Swedish were willing to sell their shares. Swedish Meats needed money due to the weak profitability (see Westerlund Lind 2011) and LRF started to change their investing strategy. Thus, HK Ruokatalo bought its first Sokołów shares in 2002 and DC in 2004 from Swedish investors. This was the beginning for HK and DC Polish investments. Thus, this change in Swedish investors' situation offered an opportunity to the other foreign (Nordic) investors which Polish meat industry needed.

HK and DC had had joint businesses in Russia through their jointly owned trading company. In the beginning of the decade the company had difficulties and it made remarkable losses. However, the Finns and Danes agreed on their shares of the losses in good spirit without any conflict. That created trust between partners.

The trust was the key for the collaboration in Poland. In addition they wanted to share the risk, especially in situation where both companies were quite indebted. In 2004 HK had increased its share of Sokołów to 30% and after the DC acquisitions (from LRF) its share was 22%.<sup>8</sup> In August 2004 HK and DC established a joint company Saturn Nordic Holding whose only purpose was to own Sokołów.<sup>9</sup> Thus, by joining their forces they got the majority of the shares of Sokołów. The companies also made a strategic decision to acquire the entire company to Saturn Nordic Holding. In the end of the year 2004 the share was already more than 60% and the rest were acquired during the next two years. The 100% ownership was achieved in summer 2006 and then Sokołów was withdrawn from Warsaw Exchange.

The trust was not lost even though both companies were interested in acquiring Swedish Meats in 2006. The DC offer was a bit different compared to HK's and Atria's offers and the winner was HK. The DC "responded" by acquiring KLS Ugglarps soon after HK acquisition. The collaboration in Poland has been totally business based and every decision has been made from Sokołów's perspective and for Sokołów's best, not for DC or HK. This principle has caused a fruitful cooperation.

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<sup>7</sup> More thorough merger and investor history of Sokołów see Eyrem Yoruk (2002) and Sobon (2004).

<sup>8</sup> At the same time LRF sold its HK Ruokatalo shares (10% at that time) to DC that it still owns.

<sup>9</sup> The company was established in Sweden (Gothenburg) due to taxation reasons.

## **4. Co-operation in Poland and Polish meat sector**

This chapter aims to give some background information concerning the institutional environment (and positioning in the food chain) in Poland, especially during the last couple of decades. Firstly we look at the cooperation in Poland and especially within pig meat production in Chapter 4.1. In the following Chapter 4.2, an overview of Polish meat sector is presented.

### **4.1 Cooperation among Polish pig farmers**

Cooperatives in Polish agriculture play a relatively marginal role, after the significant decline since the collapse of communism in 1989/1990. Due to the memories on the communist cooperatives farmers have negative attitude towards this way of cooperation.

Since 2000 there has been incentives aiming in re-establishing cooperation among Polish farmers. After 2004 financial support has been quite substantial. Instead of cooperatives the name “producers group” is used for the supported groups. This is due to the fact that the expression “cooperative” still has a bad reputation for Polish farmers. The Polish law on Producer Groups provides 4 legal forms (Limited Liability Company, cooperative, union and association). In order to facilitate establishment of a group a special credit line is provided for investments. There are 158 registered producer groups for pig production in Poland which are concentrated in the western part of Poland. Among producers groups concentrated on production of pigs a cooperative form is the most popular form.

Producer groups can have four legal forms (Limited Liability Company, cooperative, union and association). About half of all existing producer groups in Poland are cooperatives. In case of pig producers groups, most of them have the cooperative form.

The most important role of producer groups in pig sector is marketing. It means finding purchasers, and negotiating contracts. Also they typically organize joint input purchases and trainings, advisory services. There is one case in Poland where cooperatives overtook a slaughterhouse. It is an exception for now, though.

### **4.2 Meat sector in Poland**

Meat sector in Poland, after the deep breakdown in the first years of a transformation (1989-1992), later quickly developed. In the transformation of the Polish meat sector, it is possible to differentiate five stages:

- 1988-1992 – chaotic adaptations to dramatically changing conditions of economic parameters, the very high inflation and the privatization;
- 1993-1998 - the privatization of state enterprises, strengthening the market system and an economic boom;
- 1998-2002 - an economic slowdown, the restructuring of enterprises and preparations for integration with the EU;
- 2003-2008 - an economic boom and integration with the EU;
- from 2008 - the shake-out in conditions of a world economic crisis.

Speeding up the development took place after accessing to the EU, peculiarly in the years 2003-2007. In this period meat consumption increased from about 65 up to 75 kg per person, the export increased from about 250 thousand ton to almost 900 thousand ton, import from 93 up

to 420 thousand ton (from 250 million to the 850 million euro). In the first years after the EU accession the production of the livestock rose almost by 20%, slaughterings in industrial companies by 45%. The production value of the meat industry and poultry in current prices increased from the 5.3 billion euro up to 8.1 billion euro, i.e. by 57% (44% - in constant prices).

During the last years the situation of the meat sector has been changed and stagnation occurred. The production of the livestock stabilized on the level 3.5-3.7 million tons. In 2007-2011 a significant decrease in red meat production and in the processing occurred, while white meat production increased. Concerning red meat, an upturn of the production was continued: the beef production increased from 350 thousand ton in 2007 to over 430 thousand ton in 2011. At the same time a significant reduction of the pig stock and the pork production occurred - from 2165 thousand ton in 2007 to 1717 thousand ton in 2009 took place. In 2008 the recession came, and the fall in the number of heads deepened from year to year. In 2011 it was 12% lower than a year before. The production of pigs in Poland has traditionally been ineffective and expensive compared to the production in the Western Europe. However, there is a significant and growing segment of very efficient Polish pig farmers.

An import boom is the other feature of the meat sector during last years. In 2007 import of the meat, mainly pork, doubled to almost 800 thousand ton. The imported pork became a main source of supply of the raw material to the meat industry, and it caused a reduction in the number of pigs. Apart from this, prices of cereals and other forage influenced the number of pigs.

In 2011, 360 thousand farms conducted the breeding of pigs. It was fourfold smaller than in 1990. 25% of the pigs are kept in farms having herds smaller than 50 pieces, while 21.7 thousands of farms have herds bigger than 1000 animals. For comparison, the number of producers in Germany amounted to about 80 thousand, and in Denmark the number is only 10 thousand. The concentration of production and processing is one of the main features of the reconstruction of the sector.

In the last twenty-year period a fast process of the concentration occurred. In 1990-2007 number of farms having more than 50 pigs, increased 3.5 times while their share of the number of pigs from 15.7 up to the 66%.

Changes of the structure of the meat industry involved firstly in the dispersion and the distraction of food processing industry, and then its gradual concentration. At the end of 1980s about 2.6-2.8 thousand of plants processing red meat were in operation. In the first phase of system transformations a thick net of small slaughterhouses and local food-processing plants (including privatized cooperative units) appeared. Moreover, the state enterprises were privatized. In 1996 there were about 7 thousand enterprises dealing with the processing of the red meat. Later, gradually their number decreased. In 2009 there were about 3.5 thousand companies dealing with the processing of the meat.

The meat sector constitutes not only the biggest sector of the food economy, but also a considerable part of the entire Polish economy. About the role of the production and the processing of the meat in the agro-food sector of Poland they are providing the following indicators (state in 2010):

- slaughter animals amounts to about 31% of the production of the farming;
- the consumer spending to the meat amounts to about 10,1 billion euro PLN annually, what constitutes 25% of expenses on the food and drinks and about 7% of budget of households;
- export of the livestock reached 2.8 billion euro, which is 21% of the export of agro-food sector;
- the production of the meat involves about 20-25% of the farm labour and about 25% of the employment in the food industry.

## 5. Survey results

In this chapter we compare the attitudes and options in order to be able to find answers to the research questions presented in Chapter 1. This analysis is mainly based on interviews in countries involved. Firstly, the mother cooperatives views are presented in Chapter 5.1 and then the Polish views in Chapter 5.2.

### 5.1 Finland/Denmark

#### *On collaboration*

The reasons for collaboration have been analysed in Chapter 3. Both parties are satisfied on the strategic decisions they have made. It has also been very important that the Sokołów operations are independent of mother companies. Thus, the IOF type operation abroad was the only choice for mother companies. The collaboration was built on trust. The trust is maintained best by keeping Sokołów totally independent and building the operations purely on business principles.

#### *On treatment of Polish suppliers*

Securing the required flow of good quality raw material company requires is in the core of a successful business. In this sense the good relationships to suppliers are important. Even though the structure of production and the relationship of suppliers with the company differ there are no differences in basic treatment of the suppliers in Denmark, Finland and Poland. However, the practices in Poland differ from Danish or Finnish practices (see Ch. 5.2) due to the current huge difference in production structure.

In Denmark, the cooperative membership brings both the right and obligation to deliver entire production to the company (DC). In Finland the situation is more or less similar to Polish situation. The producers have a contract with HKScan's subsidiary (HKAgri or Länsi-Kalkkuna that take care of the primary production services and collecting animals) and this contract brings the right to membership in the holding cooperative LSO. Basically, the contracts are compulsory but the membership in the cooperative not.

In Poland all the suppliers do not have long term contracts. However, the company would prefer long term contracts. The long term contracts would make the raw material flow on a more secure basis. The company has tried to offer premiums for contracts but still there are a lot of producers that are not willing to contract production. The long term contracts also offer a better opportunity to quality programs and development of production at farm level through services Sokołów can offer. This is pretty much similar way to operate as in Denmark or Finland.

The Danes and Finns are expecting that the share of long term contract production increases when the structural change towards larger and more professional units in primary production continues. However, at the moment the company is experiencing quite the contrary that a number of the large and modern pig producers are more reluctant to enter into contract production. Contracting and operations with these large units does not differ from essentially from contract operations in Denmark or in Finland.

The most important when thinking the relationship to suppliers is to be a reliable, fair and responsible partner. According to interviewees there are no other ways to stay in strong

position. If you do not behave well you'll lose your current position. Thus, responsible behaviour in business is utmost important.

There are some interesting features in the Polish market that increase the heterogeneity of the contract relationships. For example, the feeding stuff industry has started to operate as "middle man" between producers and the slaughterhouses. Their aim is to bind the producers by feeding stuff contracts to them and then offer the produced pigs to the slaughterhouses. From Sokołów point of view this offers a new opportunity to contract with large amounts of raw material with one contractor. On the other hand, the role of the feeding stuff industry as "middle man" may also weaken the position of the processing industry.

The future CAP (according to the proposal) may allow producer organisations (PO's) that give producers the right to negotiate as a group of the delivery conditions (amount, price). This may certainly be one possibility for Polish producers to join their forces and start negotiating with the industry. Again the attitude is a bit two-folded: on the other hand it may increase contract possibilities and on the other hand it may mix the market.

The owners of Sokołów also see that possibly this kind of well organised PO's may also act as a starting point to a cooperative that in some time in the future may become as a co-owner to the mother companies. However, this development is not very likely at least in the near future.

### ***On Polish suppliers' membership***

Firstly, we looked at the statutes of the cooperatives that own the mother companies. The Finnish cooperative is LSO Osuuskunta and the Danish counterpart Danish Crown a.m.b.a. According to current statutes, Polish suppliers would be able to apply membership in LSO but not in DC (see Chapters 2.1.2 and 2.2.2). However, it is very probable that a Polish application would be unsuccessful.

The statute of LSO also says that the BoD have the right to deny membership even though the criteria for membership otherwise were fulfilled. Moreover, there have been no Polish applications thus far. However, there is no official decision in LSO on reserving the membership right only to Finnish producers but based on interviews the opinion is very clear: at least at the moment there are no thoughts about broadening the membership rights abroad. Indirectly this is defined in the strategy of LSO that was accepted in 2011. According to the strategy the purpose of the LSO is to produce added value to Finnish producers. This is achieved by owning HKScan and by relying on domestic raw material in every main market areas.

The Danish Crown statute allows membership only for "producers of pigs and sows or cattle and calves whose farms are located within the natural area of the Company". In practice, the membership is restricted for Danish producers since the statute defines local districts for both pig and cattle producers and there is no district for foreign suppliers. It is very probable that there are no intentions to change these practices.

On the other hand, the history described in Chapter 2 also shows that there would not have been many actual possibilities for Polish membership in mother cooperatives. Polish companies were in need of foreign capital and they were trying to lock it (Eyrem Yurak 2004). Moreover, the structural development already happened in domestic markets and in internationalisation processes towards hybridisation and subsidiary structures does not give much room for foreign suppliers' tight involvement in cooperative structures.

Furthermore, the internationalisation processes have been started in order to benefit the domestic owners/suppliers. Thus, it would have been against this strategy to seek new members from abroad.



### ***On future prospects***

These statutes and the companies' behaviour in the past clearly show that the cooperatives are domestic cooperatives and that they are also willing to stay as such. Thus, they do not want Polish members at the moment. However, situation may change and the on-going structural change especially in Poland may lead to different organizational structures. Thus far, the lack of capital has set a natural hinder for Polish suppliers and for Polish industry to become important actors by themselves. Thus, in the future it might be possible to have Polish owners in Sokołów or mother companies. However, it is not very likely. In fact, there are no restrictions e.g. to establish a cooperative in Poland that would acquire e.g. HKScan shares in Exchange.

## **5.2 Poland**

### ***On general attitude towards cooperation in Poland***

Interviewed farmers presented ambiguous feelings towards cooperatives. On the one hand, the farmers see the advantages of belonging to a producers group. They are aware that it can help to achieve higher profit, gives stringer negotiation power, and it gives opportunity to obtain help and subsidies. One of the suppliers expressed the opinion: "Cooperatives are the way of future". On the other hand, interviewed farmers show certain reservation towards cooperative form of business. They are afraid of losing the freedom, that a group would enforce decisions against a farmer's interest. They also perceived the general negative attitude – of other farmers.

According to the opinion of meat lobbyists producer group members are mostly satisfied, the cooperation brings them advantages and safety. At the moment Poland's legislative environment is convenient for producers groups. It is rather not a problem to follow the regulations. Moreover, it is relatively easy to get help, information or advice on the technical matters. In the long perspective, the lobbyists argued, as the meat sector is getting more active, there is a slow process of consolidation of the meat sector in Poland, with four large processing companies providing less than 50% of the meat production. On the producers' side – they started to cooperate, since they can achieve more bargaining power and funding possibilities. However, the support schemes are the most important factor enhancing producer groups' establishment.

The representative of the Sokołów management stated, that the actual legislation on producer groups is appropriate and the help is sufficient. To him, the reason why farmers are reluctant towards cooperation is the general lack of trust. It is a feature of Polish society together with lack of confidence in novel situations. This distrust is mostly a feature of the older generation, while the younger and medium aged farmers are different, more open for cooperation.

According to the manager the dominant factor for suppliers' decisions is the price they can get for their product. It would be a slow and gradual process to induce a group responsibility, to start cooperation, and to think about achieving more than actual behaviour, which is driven by fighting for high price even if quality of the product is low. For Sokołów it would be an advantage to deal with producer groups rather than with individual farmers since in that way it would be easier to obtain stable quality of meat supply.

As a more general problem, the representative of the Sokołów company added, that at the moment the pig breeding industry is in a difficult situation in Poland, there is not a sufficient policy of the Ministry of Agriculture. There should be more incentives given to pig producers, in order to build a larger headage stock. Also the subsidies for new investments, modernization and increasing production are missing.

### ***On Polish membership in mother cooperatives (or on other cooperative arrangements)***

Interviewed suppliers expressed positive attitude towards to the idea of being co-owners of Sokołów, since this would give them more security, providing the market of their product. They could also count on profitable relations with the company. Moreover, co-ownership should secure their involvement in the decision making processes.

According to the interviewees, Sokołów as a cooperative (hypothetical option) could give advantages, similarly to all the cooperatives – stronger market position, cheaper forage, stronger negotiating power, possibility to obtain funds from EU programs that are available for producers groups. Farmers see theoretically all the advantages and would invest in such a cooperative. Their situation would be clearer in a cooperative. However, the final decision they would take if they see profit in it.

The interviews show, that the possibility of being owners of Sokołów (as cooperative) is treated by suppliers as hypothetical, and unrealistic.

The representative of the Sokołów company, however, argues that changing the company into a cooperative would have a negative impact on the company. According to his point of view, the mentality of Polish farmers differs from the mentality of Danish or Finnish ones. In Poland cooperative members would divide the profit (dividend) among themselves rather than investing it – and this way the company's development would be undermined. To the Sokołów manager, it will take time while Polish farmers would start thinking similar way than farmers of other EU countries, in terms of the long term development in the competitive market.

The suppliers declared that they would rather create a new cooperative than joining the existing Danish or Finnish ones, since it is a risk to join to an already existing organization, especially a foreign one. They were afraid of being marginalized. However, one of the interviewed suppliers stated that he would be interested in joining the foreign cooperatives since it would give new business opportunities for him. The representative of Sokołów thinks that only the largest suppliers would be interested in joining foreign cooperatives, but there are not many of them.

### ***On Sokołów's contracts and relations with meat suppliers***

Sokołów, similarly to other meat processing companies, buys meat from the farmers. The company prefers larger producers since they give more secure and stable supply, and sometimes buys from middlemen. In the latter case the quality can vary. According to the lobbyists, most Polish producers are afraid of long term contracts, because it is connected with obligatory delivery and quality requirement, while market prices are unstable. In transactions the most important is price and payment date. In Poland, typically, price is not fixed in contracts, since the pig meat market prices are volatile. Prices are assigned at the moment of a transaction.

Comparing Sokołów to other companies of similar profile, all the interviewed stated that there are no major differences of contracting conditions. Sokołów, similarly to other processing companies prefers getting larger amount of good quality meat regularly – to ensure the continuity of production. There are both long term contracts and short term contracts with Sokołów.

There are special contracts, where Sokołów requires additional conditions, like given genetic material (in this case both piglets and forage is provided by Sokołów). The price and conditions are depending on the quality of the meat, suppliers provide.

The interviewed suppliers seemed not to favour the long term contracts. Out of three, only one had signed such contract, the other two negotiated the delivering conditions just before the transaction.

Sokołów tries to persuade suppliers for signing contract, and started the “Razem w przyszłość” (Together in the future) program. Within this program Sokołów tries to convince both suppliers and forage producers for signing long term contract. In such a contract a special attention is paid for the conditions of pig breeding and production. The genetic material and the conditions of animal growing are specified in the contract. In this way Sokołów can be provided with meat of secured quality. Contracts of this type give the possibility for long cooperation with Sokołów, with yearly amendments. In such a way a supplier gets a fixed price, higher than the actual market price for the animals, however there are quality requirements. Additionally a supplier can get a bargained price for forage. Sokołów persuades supplier to use the genetic materials and types of piglets, provided by them, in order to achieve a uniform quality material for meat processing. However, one of the suppliers stated it is too expensive, more expensive than the market price. In the long term contract a supplier states how many pigs he would sell, while in the yearly annex it is quantified exactly (a 20% of deviation is allowed from the amount given in the long term contract). The production over this amount can be sold elsewhere – depending where the supplier gets more money for it. The price is not a matter of negotiation, it is given weekly by Sokołów, according to market conditions. The suppliers that have long term contract get 5% higher price, compared with market conditions. Thus if someone agrees for conditions of the Razem w przyszłość program, obtains extra 5%, which is a premium for keeping the strict quality standards and delivery deadlines. The interviewed supplier is generally satisfied with the price and conditions given by Sokołów.

However, the long term contract conditions are not a matter of negotiation –Sokołów is a relatively big company and it can afford keeping strict contract conditions. That is the reason why the other two interviewed suppliers did not want to sign long term contract with Sokołów. For them the conditions are too rigid.

The Sokołów manager stated that the contract conditions are reasonable; prices are decided weekly, with extra payment for the quality of the material. Sokołów also offers contracts where price can be negotiated.

Sokołów is a company which always pays in time – which is of crucial importance. The firm has a lot of contracts, this enables continuous supply for the production. There is a fluctuation, suppliers can change from long term contracts with negotiated price to fixed one, according to their interest. This is not a problem for the company. Contract conditions are kept by most of the suppliers (about 90%).

### ***On Sokołów's attitude, compared to other companies***

Both suppliers and lobbyists think that Sokołów is a reliable company. First of all it pays in time. Also it keeps the agreements. The firm is considered to be fully reliable, it is safe to deal with them, according to the informants. There are clear conditions of delivery and payments, and these are always kept (none of the asked persons heard of any problems of this sort). The interviewed suppliers trust this firm, they believe all the information they get from them. As one the suppliers told, the situation is “not always so nice” with other firms in Poland. There are firms with financial difficulties that pay with delays or irregularly. Therefore the suppliers prefer dealing with Sokołów. The representative of the Sokołów company argued that payment in time is guaranteed, and there are several additional bonuses for quality or frequency of the supply. To him, Sokołów offers good conditions, compared to other companies of similar profile.

### ***On foreign ownership***

The facts that the owners of Sokołów are foreigners, or – the fact they are cooperatives, do not have too much importance in for the interviewed (suppliers and lobbyists and the Sokołów representative agreed in this respect). The firm has headquarters in Poland and the logo is well known, most suppliers do not care who owns the companies. The firm shares were sold on the stock market – in this way foreign companies could buy it.

The interviews show the suppliers' attitude is strongly price oriented. If a company pays in time and offers reasonable price the ownership is not considered important.

## **5.3 Conclusions comparative analysis**

Based on our findings the collaboration between DC and HK seems to be working well based on business principles. The Polish attitude towards cooperatives differs from the views in Finland and Denmark. However, the Polish suppliers seem to share the attitudes and thoughts about foreign investors' role and supplier treatment with the foreign cooperative owners

Supplier treatment also seems to be on a solid basis. The Polish suppliers' treatment and the contracts they are offered include pretty much similar elements than the Danish or Finnish suppliers' contracts. The heterogeneity of suppliers is, however, much larger in Poland and that increases the heterogeneity of the contract relationships as well in Poland. It was also seen that when the production units become larger and more professional the contract situation in Poland would look like much more similar to Finland or Denmark.

Concerning the cooperative behaviour the attitude of Danish and Finnish is quite clear. At the moment there is no possibility to Polish suppliers to apply membership in either of the mother cooperatives. The lack of capital and need to invest on their own farms do not either offer very good possibilities to invest in the industry, not at least in the short run. The Polish producers seemed also to think that the membership in mother cooperatives would be unrealistic. However, in the future there might be some possibilities for changing behaviour and the PO's for example, might be one opportunity to Polish suppliers to become involved in industry ownership in the future, even though it seems very unlikely at the moment.

## 6. Overall conclusions

Based on information we have collected from our Sokołów case and which have been reported in previous chapters we now look at our original hypotheses<sup>10</sup> set up for the entire project and try to draw some concluding answers.

### Original hypotheses to be tested

We had five hypotheses to be tested concerning the institutional arrangement in dealing with suppliers and running the business.

*H1: Cooperatives going international will choose a different institutional arrangement in dealing with suppliers due to differences in the institutional environment.*

*H2: Cooperatives 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).*

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

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

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

Of these hypotheses only H13 is clearly confirmed. From the very beginning it was clear for both partners that all the decision will be made by business principles. And more precisely, for Sokołów's profit, not Danish Crown's nor HK's.

The hypothesis H1 cannot be confirmed. Firstly, institutional choice (limited liability company, publicly listed) was made before cooperatives became owners of Sokołów. Of course, after the communism era in Poland the cooperative reputation was not so good that it may have affected the original choice Polish themselves had made. Secondly, the choices collaborating cooperatives had made previously (hybridisation and subsidiary structures both at domestic and international operations) affected such that the IOF was a natural continuum for both collaborators. The institutional environment in Poland did not affect the choice. This issue is directly related to H13.

Concerning hypothesis H2 there are differences in market structure and especially in agricultural production structure. There are a lot of small suppliers who sell to the best priced slaughterhouse. Thus, the structures affect trading habits but not the institutional arrangements. Contract production is the way IOF's usually operate (e.g. HK in Finland) and thus the foreign operations do not necessarily differ from domestic supplier relationships.

We do not think that operating as IOF was a choice of managers in this case. However, we cannot confirm or reject the hypothesis H3 based on our case. The only we can say is that managers (BoD) are satisfied with the IOF structure.

The hypothesis H15 is partly confirmed. Of course, the relationship between Danish producers and DC differs from Polish producers and Sokołów due to the organisational structure. In Sokołów production is based on contracts whereas in DC the ownership brings delivery right. However, in HK case producers have to have contract with HKScan subsidiary HKAgri that takes

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<sup>10</sup> Only those hypotheses are reported that are relevant in this case study.

care of collecting animals. The contract relationship brings the right to apply membership in holding cooperative LSO that owns HKScan. Thus, the structure is in fact quite similar to the operational structure in Poland. How the suppliers are treated is more or less a question of hybridisation degree.

Three of the hypotheses concerned setting up new associations inside current cooperatives.

*H7. Larger cooperatives are more likely to see their members set up new associations.*

*H8. Cooperatives going international are more likely to see their members set up new associations.*

*H9. More diversified cooperatives are more likely to see their members set up new associations.*

None of these hypotheses was thus far confirmed. In large cooperatives like DC as well as LSO or Sveriges Djurbönder there are regional electoral districts but they have not been organised to any kind of associations. In DC there are different electoral districts for pig and cattle farmers. If there were members from different countries in same cooperative the situation would perhaps be different. Otherwise the internationalisation does not affect the setting up associations. However, in the future if CAP Reform brings the opportunity to establish producer organisations (POs) in the meat sector it would be possible that such organisations will occur inside cooperatives (or outside them). These POs would probably be based on certain production in certain region. With these POs their members would possibly look for better bargaining position in delivery negotiations even with their own cooperative.

One of the hypotheses concerned ownership structures.

*H12. Cooperatives going international are more likely to have diverse ownership structures*

This hypothesis H12 was certainly confirmed. International acquisitions (as well as domestic) require capital that would be almost impossible to collect – at least fast – from members of the cooperative. Thus, if they are not able or willing to increase their debt burden the only solution is to look for outside investors. In Finnish case HK looked for institutional as well as private investors by establishing a limited liability company that later on was publicly listed. Danish Crown moved all industrial processes into a limited liability company in 2010 and at the same time it looked for outside capital by e.g. bonds from foreign investors. According to the latest annual report the discussion concerning ownership structure is actualising.

The last hypothesis concerned transnational cooperatives and foreign membership.

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

This hypothesis H14 was confirmed. DC has restricted the membership in their statute to Danish producers. LSO has not in the statute but in fact they are. It is not only a question of income rights but also a question of controlling the business. If the one member – one vote principle were released it would perhaps make it easier to accept foreign members. However, even though they were inviting foreign members it would be possible that there would not be so many eager applicants. In the future, when structures in different countries become more similar the situation may be different.

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