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# Support for Farmers' Cooperatives

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## *Developing a typology of cooperatives and producer organisations in the EU*

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## **Developing a typology of cooperatives and producer organisations in the EU**

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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)”, that will 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, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, this report on developing a typology of cooperatives and producer organisations in the EU has been written.

In addition to this report, the SFC project has delivered 34 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.

## Table of contents

1.	Introduction.....	7
2.	Original assignment and proposed methodology .....	8
3.	Classifications and typologies found in the literature.....	9
3.1	Cooperative principles.....	9
3.2	Product and sector .....	10
3.3	Functions and activities .....	10
3.4	Position in the food chain.....	11
3.5	Kind of members.....	11
3.6	Geographical scope of the membership .....	12
3.7	Ownership / financial structure .....	12
3.8	Corporate governance .....	14
3.9	Legal form .....	14
3.10	Strategy .....	15
3.11	The life cycle of a cooperative .....	15
4.	Producer organisations in developing and transition countries .....	16
5.	Classifications that will be used in collecting data on EU cooperatives/POs .....	19
	References.....	23

# 1. Introduction

This working paper presents the results of our literature review on typologies and classifications of cooperatives and producer organisations. The paper consists of three parts. Section 2 repeats the text for the contract, on what the Commission asked and what we proposed as approach and methods. Section 3 discusses the various typologies and classifications that can be found in the literature on cooperatives. Section 4 discusses the literature on producer organisations, which related mainly to developing countries. Finally, in Section 5 we present those classifications that we think are appropriate to be used in the data gathering in the EU-27 Member States.

Most typologies found in the literature only cover formal cooperatives, that is, legal persons that are registered as cooperatives. In the commissioned study we also will include producer organisations (POs) and associations of producer organisations. There is, however, no specific legislation on producer organisations like there is specific legislation on cooperatives. Producer organisations can have different legal forms. Producer organisations can even be informal organisations, but we do not include those in our study. Although many of the classifications and typologies discussed below are taken from the literature on cooperatives, we will go beyond that literature and include classifications on producer organisations.

## *Comment on the terms 'typology' and 'classification'*

Classifying is the act of arranging objects by group or class. Once classes have been defined, real life objects can assigned to one or more of these classes. The purpose of classifying is to bring order in a population of objects.

Classification and typology are sometimes used as synonyms. We, however, consider a typology as a more complex system of classification. Typologies often use several classes to develop the types. Also, typologies have more specific functions (such is in academic research or policy making) than classifications.

## *On the use of the classifications*

The classifications presented below will be used to describe cooperatives and POs in all 27 member states of the EU. The national expert in each EU Member State will classify the 30 to 40 individual cooperatives for which he/she is collecting detailed information. In addition, the NE will describe the evolution of cooperatives in different sectors with these classifications in mind. In addition, the national expert give a rough indication of the number of cooperatives in his/her country that fall in the different categories.

In selecting those classifications of coops/POs to be used for this study, we use a number of minimum requirements:

- Cooperatives and POs in all 27 member states can be classified;
- Cooperatives and POs in all sectors considered in the project (including cereals, sugar, pig meat, sheep meat, fruit and vegetables, olive oil and table olives, dairy and wine sectors) can be classified;
- Not only primary organisations (which have farmers as members) are covered, but also secondary organisations, such as cooperatives of cooperatives and associations of producer organisations.

## **2. Original assignment and proposed methodology**

### *Assignment*

This theme will develop a comprehensive description of the different types of cooperatives and other forms of producer organisations and associations of producer organisations that exist in the EU agricultural sectors. The specific activities to be considered in the classification will include at least agricultural production and/or the marketing or processing of agricultural products, the provision of inputs and services to farmers and the sharing of machinery. The typology established under this theme will facilitate the analysis and comparison of data between Member States and agricultural sectors. Additionally, the typology will be used to facilitate the clustering (Theme 6) and thereafter the selection of the cases studies (Themes 7 and 8).

### *Our approach*

Typologies can be made from different perspectives depending on their objective. Classical typologies are based on the function of the cooperative (such as provision of inputs, provision of credit, marketing, and processing) or on the type of product (dairy cooperative, fruit and vegetables cooperative, olive oil cooperative, etc.). More recent classifications found in the literature distinguish cooperatives on the basis of their ownership structure, corporate governance model, and extent of vertical integration in the marketing channel. Other characteristics of cooperatives that could be used to develop a comprehensive classification are single purpose versus multipurpose cooperatives, primary versus secondary (or federated) cooperatives, the life cycle stage of the cooperative, and the legal form of the cooperatives. The legal form will also be considered, as it will affect incentives to join or leave the cooperative. However, for some (EU) support measures, legal form is irrelevant. For instance, for the producer organisations eligible for EU support under the CMO for fruits and vegetables any legal form may be chosen (as long as a number of other structural requirements are met).

In our approach we will select or develop a number of typologies that will be used in collecting and analysing data at sector, member state and EU level. Our study will use the three building blocks (position in the food chain, internal governance and institutional environment) to build or select appropriate typologies. The typologies will be used as classification schemes, particularly in theme 3.

### *Methods*

We have based our comprehensive description and classification scheme on the following methodology:

- A literature review that covers both the theoretical and empirical literature on different conceptualizations and classifications of cooperatives (including producer associations, producer organisations, producer groups, etc.).
- Analytic narratives based on interviews with international experts on cooperatives and producer organisations.
- An assessment of the usefulness of different typologies for our empirical research

### **3. Classifications and typologies found in the literature**

#### **3.1 Cooperative principles**

Cooperatives can be classified on the basis of the principles they support and follow. Barton (1989) distinguishes between four classes of principles of cooperatives: Rochdale, Traditional, Proportional, and Contemporary.<sup>1</sup> These principles differ particularly on the business organisational variables of control, ownership and distribution of benefit.

The Rochdale principles are perhaps the most well known:

1. Voting is by members on democratic basis (one-member-one-vote);
2. Membership is open;
3. Equity is provided by patrons;
4. Equity ownership is share of individual patrons is limited;
5. Net income is distributed to patrons as patronage refunds on a cost basis;
6. Dividend on equity capital is limited;
7. Exchange of goods and services at market prices.

The list of Traditional principles slightly deviates from the Rochdale principles:

4. Ownership of voting stock is limited
7. Business is done primarily with member-patrons

However, Barton states that principles 2 (open membership), 4 (limitation on voting stock), and 7 (doing business primarily with member-patrons) are not universally listed as traditional principles, although most cooperatives follow them. A well known list of traditional principles is the ICA list of cooperative principles.<sup>2</sup> This ICA list, however, goes beyond the business organisational variables discussed above. It also pays attention to the broader societal role and position of the cooperatives. For instance, the ICA principles promote cooperation among cooperatives, and care for community.

The Proportional principles are based on a narrower, more specific definition of a cooperative as a strictly proportional enterprise with respect to voting power, equity ownership investments, and profit distribution. The key proportional principles are:

1. Voting is by members in proportion to patronage;
2. Equity is provided by patrons in proportion to patronage;
3. Net income is distributed to patrons as patronage refunds on a cost basis.

The Contemporary principles, based on Dunn (1988) are simple, flexible and few in number. They avoid including specific points some people may consider policies or practices. At the same time they encompass a latitude of practices such as open or closed membership and one vote per member or proportional voting. The three principles are:

1. Voting is by member-users on a democratic or proportional basis;
2. Equity is provided by member-users;
3. Net income is distributed to member-users as patronage refunds on a cost basis.

These principles can be found in the following business practice. Members typically control cooperatives by one-member-one-vote, but voting may be proportional to patronage or to equity

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<sup>1</sup> Please note that contemporary here means 1989.

<sup>2</sup> ICA – International Cooperative Alliance (see: [www.ica.coop](http://www.ica.coop)).



investment. Ownership of cooperatives is created by direct investments, retained patronage refunds, and per-unit capital retains. Benefits are reflected by returning net income to patrons in proportion of use, by favourable prices, and by gaining access to market, supplies, and services.

### **3.2 Product and sector**

Classifications on cooperatives usually do not distinguish among sectors and products. This is quite understandable, as the sector or product does not necessarily lead to a different type of cooperatives. Distinguishing between sectors, however, can be relevant for understanding cooperative structure and behaviour. For instance, perishable products need either some kind of processing before they will sold, such as in the case of milk, or they need to be delivered to final consumer very rapidly, such as in the case of fresh vegetables. Thus, dairy cooperatives usually are involved in processing, which has implications for capital requirements, while fresh produce cooperatives are focussing much more on efficient logistics. Another relevant issue related to sectors and products is the number of products the cooperative handles. Cooperatives can specialize in handling one product, or can handle various agricultural products. The extent of specialization is often related to sector characteristics (such as specialized farms), but could also be a cultural and historical phenomenon. For instance, dairy cooperatives are generally more specialized than cereal cooperatives, but cooperatives in Northwest Europe are usually more specialized than cooperatives in Southern Europe. Cooperatives handling multiple products are often called multiproduct or multisector cooperatives.

### **3.3 Functions and activities**

A classification found in many publications is the one on the main functions or activities of the cooperative (Helm, 1968; Cropp and Ingalsbe, 1989; Plunkett and Kingswell, 2001. The following types of cooperatives have been distinguished:

- Joint production (production cooperative)
- Joint nature conservation (environmental cooperative)
- Providing farm inputs (supply cooperative)
- Providing credit (credit cooperative)
- Providing insurance (insurance cooperative)
- Providing farm machinery services (machinery cooperative)
- Providing temporary labour (farm help cooperatives)
- Providing starting material (plant or animal breeding cooperative)
- Providing water (irrigation cooperative)
- Processing farm products (processing cooperative)
- Marketing farmer products (marketing cooperative)

Within this list of activities that cooperative could perform, we could may a core distinction among three types of cooperatives. The first type consists of cooperatives that directly engage in farming activities, like in the case of joint production and joint nature conservation. The second type consists of cooperatives that provide all kinds of goods and services to the farmers. Production of these services involves substantial economies of scale and scope. The third type consists of cooperatives that have taken over the sales activities of the farmer. By delegating the processing and marketing of the farm products to the joint organisation, farmers can specialize in on-farm activities.

For production cooperatives, Helm (1968) has made the following subcategories:

- joint ownership
- joint planning
- joint organising

- joint cultivating
- joint harvesting
- joint animal husbandry

### 3.4 Position in the food chain

For marketing cooperatives, we can make a further distinction depending on the position in the food chain that the cooperative is taking up. In marketing farm products, the cooperative may choose from a range of 'marketing' activities, which ranges from just providing a market place, like auction do, to large scale selling of final products to consumers. In between, there are different positions in the food chain that the cooperative may hold. We distinguish the following 'marketing' activities which more or less correspondent with a particular position in the food chain:

- providing a market (e.g. auction cooperative)
- collective bargaining (e.g. bargaining association)
- collecting farm products (including transport and storage)
- primary processing (producing intermediary products for the food industry)
- secondary processing (producing final consumer products)
- marketing commodities (bulk products; private label products)
- marketing branded products
- wholesaling (this implies the coop is selling member products and other products, in order to supply a full assortment to the retail)
- retailing (i.e. directly selling to consumers)

A typology of cooperatives that based on the position in the food chain (or the scope of vertical integration in the food chain) is presented by Nilsson (2001), who distinguishes between (a) the countervailing power cooperative model or traditional model, (b) the entrepreneurial cooperative model or new generation farmer cooperative model. The entrepreneurial cooperatives tend to go further into value-added products, and hence to expend business operations downstream the food chain, to invest in product and market development. Kyriakopoulos et al. (2004) present the same dichotomy, distinguishing between production-oriented cooperatives and market-oriented cooperatives.

Classifying cooperatives according to position in the food chain is important for a number of reasons. First, the position may have implications for the financial structure of the cooperative (more specifically for the equity capital needed). Cooperatives selling (branded) consumer products generally need more equity capital than the ones that limit themselves to primary processing. Second, there is a relationship between position in the food chain and economies of scale. Cooperatives that only have activities very close to the farmer, such as bargaining and primary processing, generally put more emphasis on economies of scale. Third, the internal governance may be related to position in the food chain. Cooperatives operating very close to the final consumer are more likely to hire professional (marketing) managers. Finally, cooperatives that have a wholesale function are more likely to have a high share of non-member patronage.

### 3.5 Kind of members

Cooperatives can be classified on the basis of the kind of members, distinguishing between primary cooperatives that have farmers as their members, and secondary or federated cooperatives that have primary cooperatives as their members (e.g. Sögaard, 1994; Bijman, Chaddad and Cook, 2004).

Where primary cooperatives are often small, secondary cooperatives are often much larger, taking care of the marketing outside of the communities of the primary cooperative. History has shown that when primary cooperatives grow often the secondary cooperatives disappear, for instance by merging primary and secondary cooperatives. Secondary cooperatives are more likely to combine economic functions with lobbying functions.

In the European fresh fruits and vegetables industry associations of POs (so-called APOs) are newly appearing. The development of POs jointly establishing APOs is supported by the EU, as many POs are too small to pose any countervailing power vis-a-vis large retailers.

### **3.6 Geographical scope of the membership**

Cropp and Ingalsbe (1989) has also made a classification on the basis of the geographical area serviced, thus the area in which the members of the cooperative reside. The authors distinguish among the following classes:

- Local (e.g. municipality)
- Regional (e.g. Province, State or Department)
- Interregional
- National
- Transnational

Local cooperatives always have farmers as their members, Regional, interregional and national cooperatives can have direct farmer membership – depending on the size of the country – or can be so-called federated cooperatives (see below).

### **3.7 Ownership / financial structure**

Ownership structure and financial structure are closely related. We have defined a cooperative and POs as an organisation in which the members provide the equity capital, thus the members are the owners. In situations where the cooperative enterprise needs more capital, several options are available, potentially leading to a partial change in ownership structure.

Well known classification of ownership/financial structure have been developed by Nilsson (1999) and Chaddad and Cook (2004). All around the world, cooperatives are introducing new financial tools in order to attract additional equity capital. Often these tools imply changes in the ownership structure of the cooperative or its subsidiaries. Therefore, financial and ownership structure are usually considered as the two sides of the same coin. Attracting additional risk capital may be needed for international expansion, investments in R&D, as well as investments in risky marketing activities like building consumer brands.

Nilsson (1999) distinguishes among five models of financial structure of the cooperative (Table 1). The main distinction among these five models pertains to ownership rights, where owners are the actors that provide equity (or risk) capital to the cooperative. Ownership rights can be collective or individual and can be held only by members or by members and external investors.

Model 1 is called the “traditional cooperative”; only members invest in the cooperative and all equity capital is collective. This means there are not individual ownership titles, and the investment will be returned to the members in case they exit the cooperative. Model 2, the “participation share cooperative”, has partly individualised its equity capital; members may also become individual shareholders in the cooperative and these shares can be traded at an internal share market. Model 3 is the “cooperative with subsidiaries” in which outside investors participate. Equity capital is partly collective, partly individual, and both members and outsiders own shares in the subsidiary. Model 4 is the “cooperative with proportional tradable shares”. In

the United States this is called the new generation cooperative. Only members are shareholders, and all equity capital is individually owned. Finally, Model 5, the “PLC cooperative”, is listed at a stock exchange, and outsiders may own and trade the common stock. Nilsson has called models 2 to 5 entrepreneurial models, because only when the cooperative seeks to become (more) entrepreneurial it feels the need to restructure its financial basis. It is assumed that both by individualizing equity capital and by letting non-members invest, the cooperative is able to attract the necessary capital for its entrepreneurial activities.

**Table 1. Financial structures of cooperatives**

	Type of Equity Capital		Providers of Equity Capital	
	Collective	Individual	Members	Non-members
1. Traditional cooperative	X		X	
2. Participation share cooperative	X	X	X	
3. Cooperative with subsidiaries	X	X	X	X
4. Proportional tradable share cooperative		X	X	
5. PLC cooperative		X	X	X

Source: Nilsson, 1999.

Chaddad and Cook (2004) have also used an ownership perspective in their typology of cooperative organisational models. This typology is based on the experiences among cooperatives in North America. The authors define ownership as the combination of residual control rights and residual claim rights. They distinguish seven discrete ownership models, ranging from the traditional cooperative at one extreme to the investor-owned firm (IOF) at the other. In between are five models that discriminatively combine the ownership structure of traditional cooperatives, where member/users have full residual control and claim rights, with those of investor-owned firms, where investors hold all ownership rights. Leaving aside the IOF, the six alternative cooperative models are characterized on the following variables: investment restricted to members or also open for non-members; redeemable versus non-redeemable but tradable rights; benefits to patronizing members or also to non-patronizing but investing members; member investment proportional to patronage or non-proportional; and finally, when outsiders are investing, do they do so in the cooperative itself or in subsidiaries of the cooperative. Chaddad and Cook emphasise that the five non-traditional models can be used by cooperatives to ameliorate perceived financial constraints while retaining a cooperative structure.

The cooperative with a subsidiary in which outside investors can participate (Nilsson’s Model 3) has been quite popular in several European countries. Eventually, this process of inviting outside investors may result in the subsidiary becoming listed on the stock market. The latter model has been named the Coop-Plc model (by Harte, 1997) or the Irish Model (by Chaddad and Cook, 2004). While most of the activities and assets are transferred from the cooperative to the Plc-firm, the cooperative remains in place as a holding organisation, representing the interests of the members. Although the cooperative initially is the majority shareholder, it may eventually become a minority shareholder when the public listed subsidiary is issuing new shares (Bekkum and Bijman, 2007). Examples of this Irish model of cooperative ownership/financial structure are:

- the dairy cooperative Kerry (which became stock listed in 1986);
- the supply cooperative IAWS (1988);

- the dairy cooperatives Avonmore and Waterford (1989); they merged and became Glanbia in 1997); and
- the dairy cooperative Golden Vale (1989; acquired by Kerry in 2001).

### **3.8 Corporate governance**

Bijman et al. (2012) have developed a classification based on corporate governance of the cooperative. On the basis of empirical research in The Netherlands, they distinguish among the following cooperative corporate governance models.

- The traditional model, in which members directly elect the Board of Directors (BoD), which consist entirely of farmer-members, and the BoD appoints and controls the management of the cooperative firm;
- The management model, in which the professional manager is the BoD of the cooperative. As the management consists of external professionals, this model implies that the BoD no longer consists of members of the cooperative. The Supervisory Committee is often replaced by the – legally required – Board of Commissioners (BoC), while the main tasks of the General Assembly have been taking over by a Member Council.
- The corporation model, in which the BoD of the cooperative forms a personal union with the (mandatory) Board of Commissioners of the firm. While the BoD can (but does not have to) consist of only members of the cooperative, the BoC also comprises a number external experts. This model implies that there is not a separate supervisory committee at the level of the cooperative association.

This classification implies an assumed shift of authority (or power) from the farmers to the professional managers. This shift is often suggested as necessary for strengthening the market orientation of cooperatives, as it gives manager more freedom to operate. However, the shift may lead to reduced member commitment or member alienation.

As the cooperative firm becomes larger, more international, and more market oriented, the relationship between the board of directors and professional management changes. The agency problem (i.e. how owners make sure that managers take decisions that are in the interest of the owners) becomes more serious as the size and complexity of the cooperative increases (Cook, 1995). Although the formal structure of the cooperative still gives the board of directors the final authority, in large, market-oriented cooperatives, the managers have an information advantage that makes it difficult for the board to control the managers.

### **3.9 Legal form**

Cooperatives may have many different legal forms. A classification based on legal form is the following:

- association
- cooperative
- partnership
- limited liability company (Ltd, BV, SARL, GmbH, SL, etc.)
- corporation (Plc., NV, AG, SA, etc.)
- informal producer group

The legal form of the cooperative/PO can differ substantially according to differences in national legislation. In addition, producer organisations under the CMO regulation for fruits and

vegetables may take up any legal form. Still, from a policy-making perspective it is important to know for each country and each sector what is the dominant legal form. Also, from an EU perspective, it is interesting to know whether there are substantial differences among member states in the dominant legal form for coops/POs.

### **3.10 Strategy**

Many recent publications with classifications or typologies of cooperatives have focussed on the different strategies the cooperatives may follow (Kyriakopoulos, 1998; Van Bekkum and Nilsson, 2000; Van Bekkum, 2001; Karlson, 2005). Most of these publications distinguish between production-orientation versus market-orientation, traditional versus entrepreneurial, and cost leadership versus differentiation. Many of the authors make link, in their discussion on the (marketing) strategy of the cooperatives, with the position of the cooperative in the food chain and with the capital structure of the cooperative. For instance, Van Bekkum (2001) distinguishes cooperatives on two strategic dimensions: extent of product differentiation and extent of cost leadership. In addition, he separates cooperatives on one element of organisational structure: the extent of individualized equity capital. These three scales result in a typology of cooperative models, which has been pictured by Van Bekkum in a three-dimensional figure. This cooperative models cube identifies pure forms of four cooperative models:

- a) the village cooperative model, related to small, local-oriented and collectively structured cooperatives with limited specific product requirements;
- b) the commodity cooperative model, related to large, collectively structured cooperatives with a strong market position in undifferentiated commodity markets;
- c) the niche cooperative model, related to small, individualised cooperatives focussed on market niches;
- d) the value-added cooperative model, related to the highly individualised, large cooperatives focussed on highly differentiated products.

### **3.11 The life cycle of a cooperative**

Not exactly containing classifications, but certainly interesting from a perspective of position in the food chain and internal governance is the literature on the life cycle of the cooperatives. Murray (1983) argued that over time cooperatively owned organisations become more akin to conventional IOFs as organisational goals and performance become oriented away from the aspirations of farmers and towards the goals of managers, as reflected in organisational and financial structures, trading practices, functions and trading area. Cook (1995) identified five hypothetical life cycle stages. Moving along these stages, cooperatives would reappraise their organizational structure and their equity base, possibly at the expense of member participation and user-based rewards, eventually resulting in cooperatives that very much become akin to investor-owned firms (IOFs). Hind (1997) found that organizational focus of cooperative businesses change over time. She found a positive relationship between business age and increasing corporate, as opposed to member, orientation. This study of Hind was based on text analysis of annual reports of several UK agricultural cooperatives. Hind (1999), in a study of ten business cases, found that over time cooperative businesses tend to become more corporate focuses as managers seek to covertly accumulate capital to allow conventional business objectives to be followed. The evidence from those case studies also suggest that as and organisation develops and grows, the ethics of the “organisational people” as opposed to those of the “cooperative enthusiasts” seem to become increasingly the parameters with which business objectives and strategy are determined.

## 4. Producer organisations in developing and transition countries

Typologies and classifications of Producer Organisations (POs) are scarce. The term 'Producer Organisation' is mostly used in the development literature, where it refers to a broad range of rather different organisations of agricultural producers.

Producers are farmers, i.e. producers of agricultural products. Producer organisations (POs) are organisations set up for and by farmers. Different names are used for the same or similar types of organization, such as farmer organization (Stockbridge et al. 2003), rural producer organization (Bosc et al. 2001), agricultural producer organization (Rondot and Collion 2001), agricultural cooperative (Hussi et al. 1993), farmer association (Shen et al. 2005), farmer organization (Wennink et al., 2007), producer group (Banaszak 2008), producer association (Fulton 2005), producer organisation (World Bank, 2007; Ton et al., 2007), and collaborative marketing groups (King and DiGiacomo, n.d.).

One of the most extensive overviews of different types of POs in developing countries is presented by Onumah et al. (2007). Besides providing a short history of POs (mainly cooperatives) in developing countries, the authors present six types of what they call post-liberalisation POs. The authors have adopted the definition of POs as developed by the former International Federation of Agricultural Producers (IFAP) as including cooperatives, producer associations and other forms of economic structures. The main distinguishing characteristics in this typology seems to be the main functions of the organisation as well as the initiators or main drivers of the organisation.

- Extension or commodity POs (out-growers): These are self-selected groups of farmers producing the same crop, in the same geographic area, who joint together to share labour or receive extension services. Typically these groups are not formally organized or registered, but may have a leadership structure. Ten to 30 members is a typical size, but this varies depending on the crop. Some extension groups are linked to a specific company or commodity, in what is called an "out-grower scheme".
- Farmers' association: This is a self-selected group of farmers, who engage in collective business activities. Most commonly, the businesses involve collective marketing, where larger volumes of a given crop are easier to sell and/or attract higher prices. Farmers' associations typically have ten to thirty members, usually from the same village. They may be formally registered or not, and usually have a leadership structure and constitution.
- Donor and NGO-promoted POs: Many POs working at the grassroots level with a direct objective of improving farmers' welfare are initiated or least substantially funded by NGOs and donors. These organisations tend to be registered as associations. POs promoted by NGOs and donor-funded projects tend to be acutely dependent on the promoters and therefore their sustainability is often a major concern.
- Market relations and embedded services for POs: These are private-sector-promoted POs with functions that include input/credit delivery, extension services and bulking for delivery to private promoter organizations and companies. With this category fall outgrower groups established by the purchasing company. The difference with the first type is that the initiative here lies with the company and not with the farmers.
- Remnants of the cooperatives: Some of the old primary cooperatives (or cooperative societies) have managed to survive in countries partly through entering into long-term

marketing relations with agribusiness or securing access to lucrative markets for members. Thus their function has become direct marketing rather than trading produce through the cooperative union as occurred in the past.

- National and regional federations of producer organizations: These are umbrella organisations of local and regional POs, typically engaged in lobbying and advocacy. Examples given by Onumah et al. (2007: 18) are the Uganda Cooperative Alliance, the Zambia National Farmers Union and the Kenya National Federation of Agricultural Producers. These POs often receive significant support from donors and tend to work closely with governments.

Traxler and Unger (2004) suggest to make a distinction between POs that have primarily an economic function and those that have primarily a political function. The authors also suggest to make a subdivision among economic producer organizations. One category includes those organizations that have integrated forward into the value chain by processing and/or marketing farm products, or that have integrated backwards by purchasing and/or producing farm inputs. Typical examples are dairy processing cooperatives and compound feed cooperatives. The other category consists of organizations that centralize and coordinate the selling of farm products. A typical example is the bargaining association in the fresh produce industry (Hueth and Marcoul 2003). Whereas POs in the first category purchase the product from the farmer, the bargaining association usually does not take ownership of the product, but only facilitates the sales process.

Penrose-Buckley (2007) presents a definition of a PO with a clear demarcation to economic functions: a producer organisation is a rural business, owned and controlled by producers, and engaged in collective marketing activities.

The focus in this definition on marketing as the main function of the PO is in line with most of the recent development literature that is analysing the role of POs in value chains or supply chains (e.g. Bijman and Wollni, 2009; Hellin et al., 2009; Markelova et al., 2009 ). Although POs can also be engaged in collective production, processing, purchasing farm inputs, providing technical assistance, obtaining subsidies, and even lobbying policy makers, the core activity that all POs have in common is that they collectively market their members' products.

This definition implies that village or community-based organisations are not POs. Village and community organisations are primarily a means to channel resources to a community or to mobilize community activities. Still, POs may pursue social objectives through the provision of social services to their members and the wider community. The bottom line, however, is that POs cannot be led by social objectives. If social objectives are placed before business priorities, the business is likely to fail and no one will receive either economic or social benefits.

The term "producer organisation" can be considered an umbrella concept for any economic organisation of agricultural producers that complies with the above definition of being a rural business, being producer-owned and producer controlled, and being primarily a collective marketing organisation.

Penrose-Buckley (2007) presents the following classification as to organisational form of the (economic) producer organisation:

- informal organizations
- associations
- cooperatives
- private companies
- multi-level structures
- mixed structures.



Our short inventory of the structures and role of POs in developing countries shows that much of the literature does not clearly distinguish between economic, social and political functions of POs, that POs can have different legal forms or even remain informal organisations, that POs can be part of a multilayer system, and that the initiative to set up a PO can come from different stakeholders.

Classifications of POs in the development literature focus on the following characteristics:

- who takes the initiative for establishing the PO: governments, NGOs, agribusiness companies or farmers;
- what legal form does the PO take: informal, association, private company, cooperative, or mixed structure;
- what are the functions of the PO: social, economic and/or political;
- what is the level of the PO in the multilayer system: primary cooperative, cooperative union, cooperative federation, cooperative confederation;
- in case of economic function, what is the position in the food chain: only bargaining, or processing and marketing the farm products (bargaining association versus marketing/processing cooperative).

## **5. Classifications that will be used in collecting data on EU cooperatives/POs**

From the many classifications and typologies discussed above, we suggest to use the following classifications in describing the types of cooperatives/POs that exist in the various Member States of the EU. We call these classifications and not typologies, in order to keep it as simple as possible for data collection purposes. Later, on the basis of the information gathered in the EU-27 Member States, we will develop typologies that include combinations of classification.

### **1. A classification based on the sector(s) in which the cooperative/PO operates (or the main products it is handling):**

- Cereals
- Sugar
- Pig meat
- Sheep meat
- Fruits and vegetables
- Olive oil and table olives
- Dairy
- Wine

Besides that we need to study cooperatives in the top 8 of the above list of sectors, as indicated by the Commission and which are relevant from a sectoral policy perspective, we also want to know their main products because the type of product has implications for the activities and thereby the organisation of the cooperative. Perishable products are more likely to be handled by cooperatives than non-perishable products, because of the dependency of farmers on the processing/marketing firm, but milk is more likely to be handled by cooperatives than fresh fruits because of the economies of scale involved in milk processing.

### **2. A classification based on the main functions of the cooperative/PO:**

- Joint production (production cooperative)
- Joint nature conservation (environmental cooperative)
- Providing farm inputs (supply cooperative)
- Providing credit (credit cooperative)
- Providing insurance (insurance cooperative)
- Providing farm machinery services (machinery cooperative)
- Providing temporary labour (farm help cooperatives)
- Providing starting material (plant or animal breeding cooperative)
- Providing water (irrigation cooperative)
- Processing farm products (processing cooperative)
- Marketing farmer products (marketing cooperative)

In our project the emphasis is on marketing cooperatives / POs and on food products. For the description of cooperatives in particular countries we use a classification that includes other cooperatives, to get a good overview of the importance of cooperatives in the agricultural industry in that country. Also, there may be many links between marketing and other cooperatives (for instance, a supply cooperative may have an agreement with a marketing cooperative to provide particular inputs to the farmers that are members of both coops).

### **3. A classification on diversity of functions and products**

In addition to economic functions (providing services that support farmers in their on-farm economic activities), cooperatives/POs may also have social and political functions. Particularly those cooperatives strongly embedded in rural communities often provide social services for the members of the community. Thus, we will also describe whether and which cooperatives have social and other functions. These cooperative with non-economic functions are called multipurpose cooperatives. Also we will distinguish among cooperatives that only handle one product and those that handle multiple product.

- Economic activities
  - single product
  - multiple products
- Social activities
- Political activities

This is an important classification, particularly as we expect a distinction within the EU between north (relatively more specialized cooperatives), south and east (relatively more multipurpose cooperatives).

In the CEECs of the European Union producer groups dominate the pattern of collective action among farmers. Groups are mostly small in size 10-200 members and specialize in marketing one or few commodities (Hungary data). Some of the “agricultural cooperatives” (successor organizations of privatized, former socialist collectives) have become “multi-purpose” in that they have taken up other tasks than organizing production like for example machinery services, bargaining rental prices on the land market, marketing and warehousing, financial services etc. In Austria and Germany multi-purpose cooperatives exist, the so-called Raiffeisen Warehouses. They are multi-purpose cooperatives organized over several tiers across regions. They perform multiple tasks like marketing products of their members, milling, oil pressing, warehousing, financial services, machinery repairs leasing and rental, as well as extension services. In the year 2010, more than 1600 Raiffeisen warehouses existed in Germany. In Austria about 150 of such warehouses existed. In East Germany about 1050 agricultural cooperatives (successor organizations of privatized, former socialist collectives) existed (DGRV 2010).

### **4. A classification based on the position and function of the coop/PO in the food chain.**

- providing a market (e.g. auction cooperative)
- collective bargaining (e.g. bargaining association)
- collecting farm products (including transport and storage)
- primary processing (producing intermediary products for the food industry)
- secondary processing (producing final consumer products)
- marketing commodities (bulk products; private label products)
- marketing branded products
- wholesaling (this implies the coop is selling member products and other products, in order to supply a full assortment to the retail)
- retailing (i.e. directly selling to consumers)

This classification is important as a different position in the food supply chain may have a different effect on the most-efficient size (economies of scope and scale), the internal governance (role of board vis-a-vis professional managers), the equity capital needed, and the relationship with (major) supply chain customers.

In our project the emphasis is on marketing cooperatives / POs and on food products. For the description of cooperatives in particular countries we use a classification that includes other cooperatives, to get a good overview of the importance of cooperatives in the agricultural

industry in that country. Also, there may be many links between marketing and other cooperatives (for instance, a supply cooperative may have an agreement with a marketing cooperative to provide particular inputs to the farmers that are members of both coops).

Finally, there may be other linkages between different cooperatives. Having a network of collaborating cooperatives can be considered as a strategic asset that can strengthen the competitiveness of a particular sector or region (and may reduce the need for policy support; or may lead to combined efforts to lobby for supportive policies). See for instance the article by Karantinis (2007) on the network relations among Danish cooperatives

### **5. A classification based on the types of members:**

- primary cooperative / PO
- secondary or federated cooperative / association of POs

Secondary cooperatives are more likely to combine economic functions with lobbying functions, which is relevant from a supporting policies perspective. In the fresh fruits and vegetables industry associations of POs (so-called APOs) are newly appearing. This development is actively supported by the EU, as many POs are too small to pose any countervailing power vis-a-vis large retailers.

### **6. A classification based on geographical scope of the membership.**

We follow the classification by Cropp and Ingalsbe (1989):

- Local (e.g. municipality)
- Regional (e.g. Province, State or Department)
- Interregional
- National
- Transnational

A classification according to geographical scope can be relevant from the perspective of policy makers that would like to support cooperatives. Public authorities may want to provide support to cooperatives in their particular jurisdiction.

### **7. A classification based on the financial/ownership structure.**

We follow the classification by Nilsson (1999):

- traditional cooperatives
- participation cooperative
- cooperative with subsidiaries
- proportional tradable share cooperative (or new generation coop)
- PLC cooperative

A financial/ownership typology is important as many cooperatives are introducing new tools in order to attract additional equity capital. The latter is needed for (international) growth, investments in R&D, and investments in risky marketing activities like establishing consumer brands.

**Table 1. Financial structures of cooperatives**

	Type of Equity Capital		Providers of Equity Capital	
	Collective	Individual	Members	Non-members
6. Traditional cooperative	X		X	
7. Participation share cooperative	X	X	X	
8. Cooperative with subsidiaries	X	X	X	X
9. Proportional tradable share cooperative		X	X	
10. PLC cooperative		X	X	X

Source: Nilsson, 1999.

### 8. A classification based on legal form:

- association
- cooperative
- partnership
- limited liability company (Ltd, BV, SARL., GmbH, SL, etc.)
- corporation (Plc., NV, AG, SA, etc.)
- other form

The legal form of the cooperative/PO can differ substantially according to differences in national legislation. In addition, producer organisations under the CMO regulation for fruits and vegetables may take up any legal form. Still, from a policy-making perspective it is important to know for each country and each sector what is the dominant legal form. Also, from an EU perspective, it is interesting to know whether there are substantial differences among member states in the dominant legal form for coops/POs.

For example in the CEECs of the European Union farmers are known to be reluctant to call the form in which they cooperate “cooperative”. Most cooperative organizations are not registered as cooperatives but rather take the legal form of a limited liability company, association or other (Gardner and Lermann, 2006; Banaszak, 2008). In Poland for example only 2% of the marketing associations of producers are registered as cooperatives (Banaszak 2008). Like in other Central and Eastern European Countries they are officially called producer groups, producer organization, or association of producers (Ramanauskas et al., 2007).

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