

Producer organisations in value chains: accommodating multiple interests

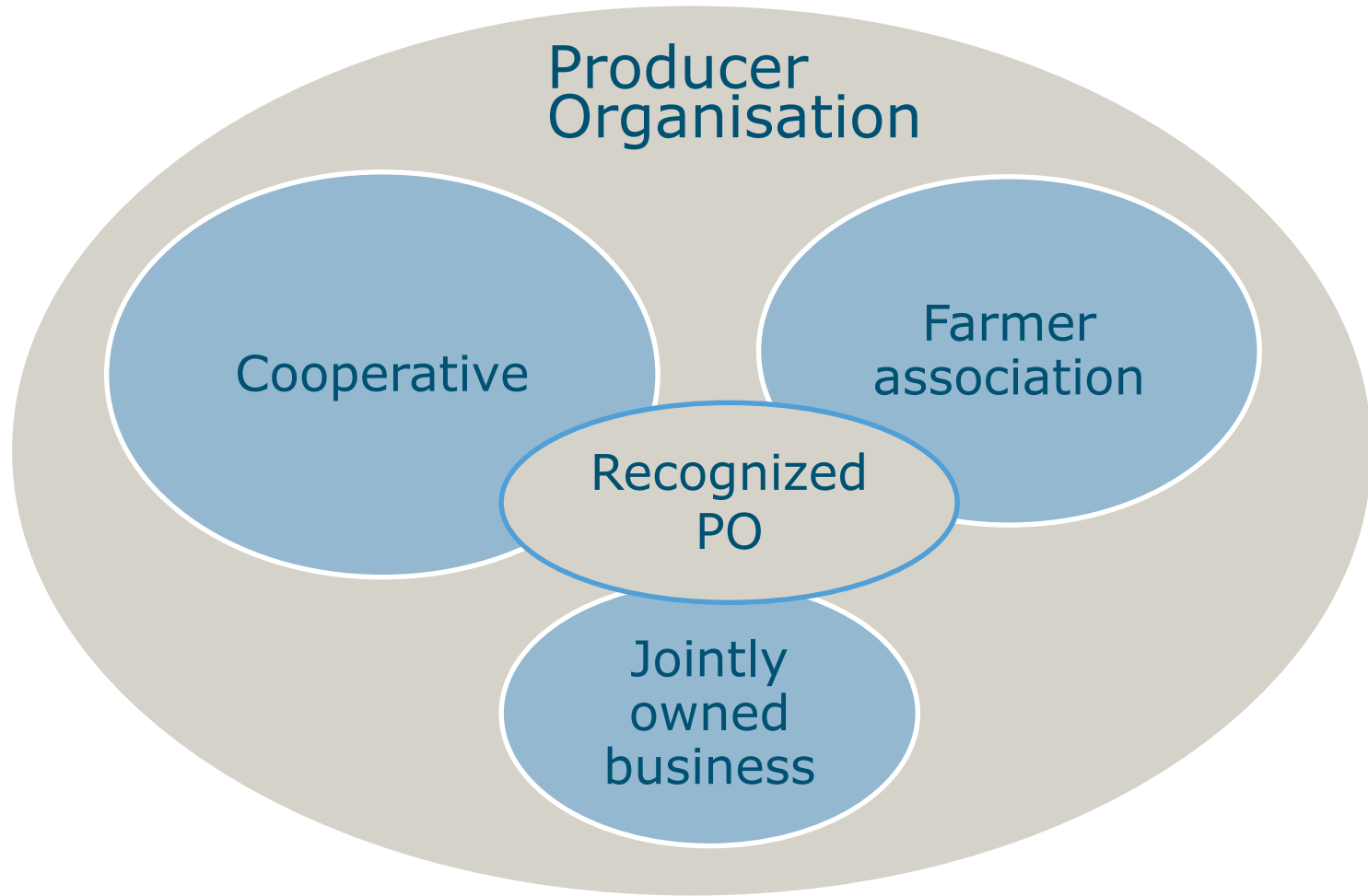
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Conference “The contribution of producer organisations to
an efficient agrifood supply chain”.

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Cooperatives and other POs



Defining Cooperatives

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

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

Dunn, J. R. (1988). Basic Cooperative Principles and Their Relationship to Selected Practices. *Journal of Agricultural Cooperation*, 3, 83-93.

Theoretical perspectives on cooperatives

- Two main theoretical perspectives in economics:
 - The cooperative as a vertical integration of otherwise autonomous firms. Its primary objective is to conduct an optimal marketing program for its members.
 - The cooperative as an independent business enterprise. Its primary objective is to maximize benefits to its owners.

What do we know about the role of cooperatives in value chains?

- Traditional reasons for farmers to set up a cooperative were mainly countervailing power, economies of scale and logistic efficiency
- Modern reasons for cooperatives **also** include quality management, co-innovation and sustainability management
- *From bargaining power to vertical coordination*

Key functions of cooperatives in value chains

Producer perspective

- Bargaining / sales
- reduction transaction cost
- information sharing
- logistic efficiency
- quality management
- co-innovation

Buyer perspective

- Bargaining / purchase
- reduction transaction cost
- information sharing
- logistic efficiency
- quality management
- co-innovation
- CSR activities

Where do interests of cooperatives and buyers coincide and where not?

Producer perspective

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

Buyer perspective

- Bargaining / purchase
- reduction transaction cost
- information sharing
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- co-innovation
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Joint interest of producers and buyers

- Logistic efficiency
 - Co-innovation
 - Reduction of transaction costs
 - Quality control
-
- This does not mean that benefits will be equally distributed among producers and buyers
 - Power determines distribution!

What do we know about POs in Dairy?

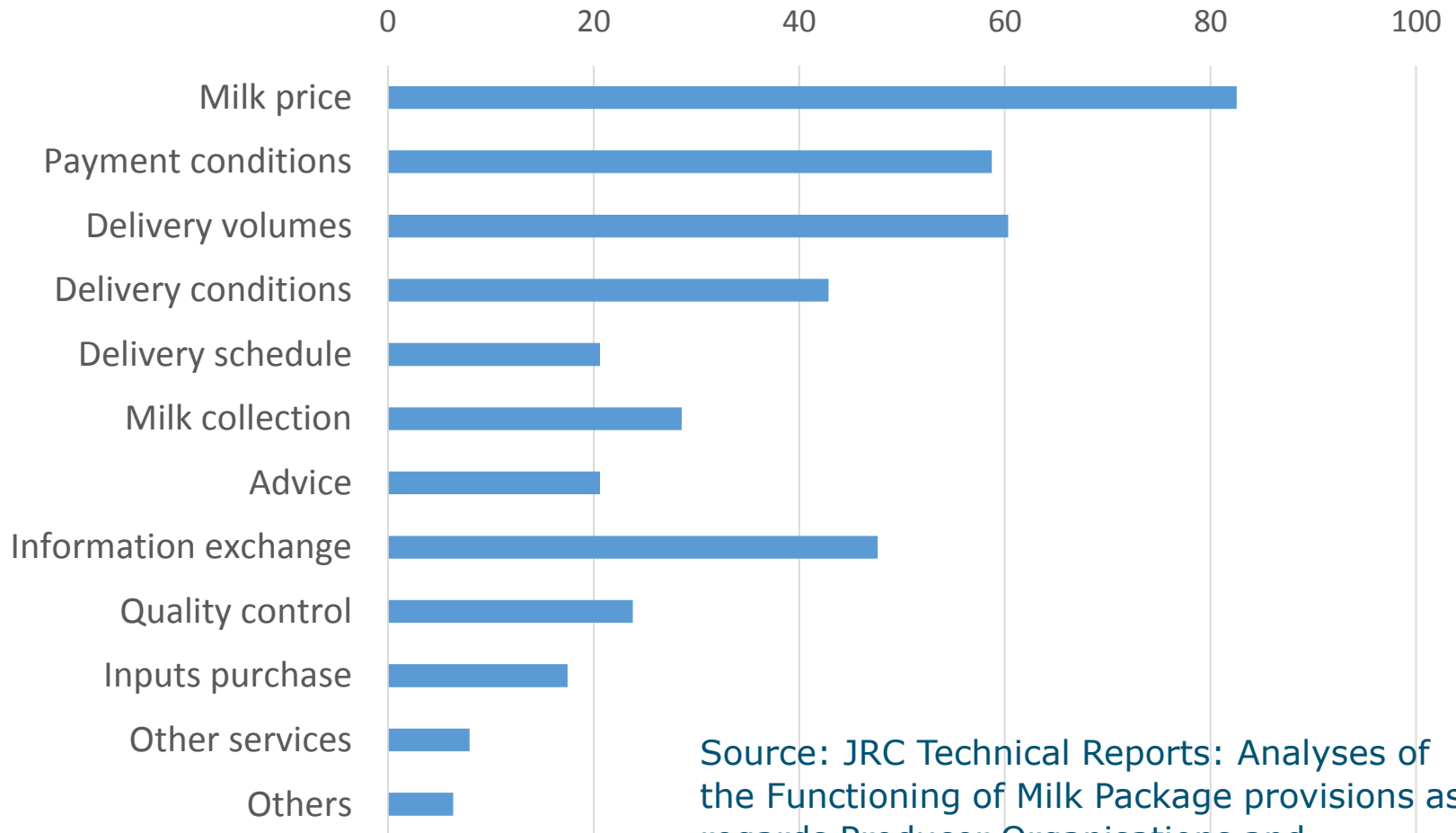
	Milk deliveries (million tons)	Cooperatives (%)	Recognized POs (%)
Germany	32.7	67	37
France	25.8	54	18
Netherlands	13.5	86	0
Czech Republic	3.0	65	44
Spain	7.0	36	16

Legal forms of POs

- Multiple legal forms are allowed, but cooperative is dominant
- Few countries (NL, B, ES) prescribe cooperative
- Some countries allow associations
- Most countries also allow Private Limited Companies (Ltd, SARL, GmbH, Oy, Spółdzielnia)
- Germany: special legislation on Erzeugergemeinschaften / Erzeugerorganisationen

Core activities of dairy POs

(n=63, or 23% of all dairy POs)



Source: JRC Technical Reports: Analyses of the Functioning of Milk Package provisions as regards Producer Organisations and collective negotiations (2017)

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

Member State	Yes	No	N.A.	Total
DE	0	22	0	22
FR	0	13	0	13
IT	5	3	3	11
ES	0	4	1	5
Rest	6	5	1	12
All	11	47	5	63

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

Source: JRC Technical Reports: Analyses of the Functioning of Milk Package provisions as regards Producer Organisations and collective negotiations (2017)

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

- Power differences
- Differences in risk attitudes
- Differences in dependencies (due to size and specific investments)

- Misunderstanding of each others interests
- Lack of trust
- Lack of technical support

What makes coops/POs not realize its potential?

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

- External challenges
 - Lack of legitimacy
 - Uncertainties as to market of policies

Some issues of internal governance

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

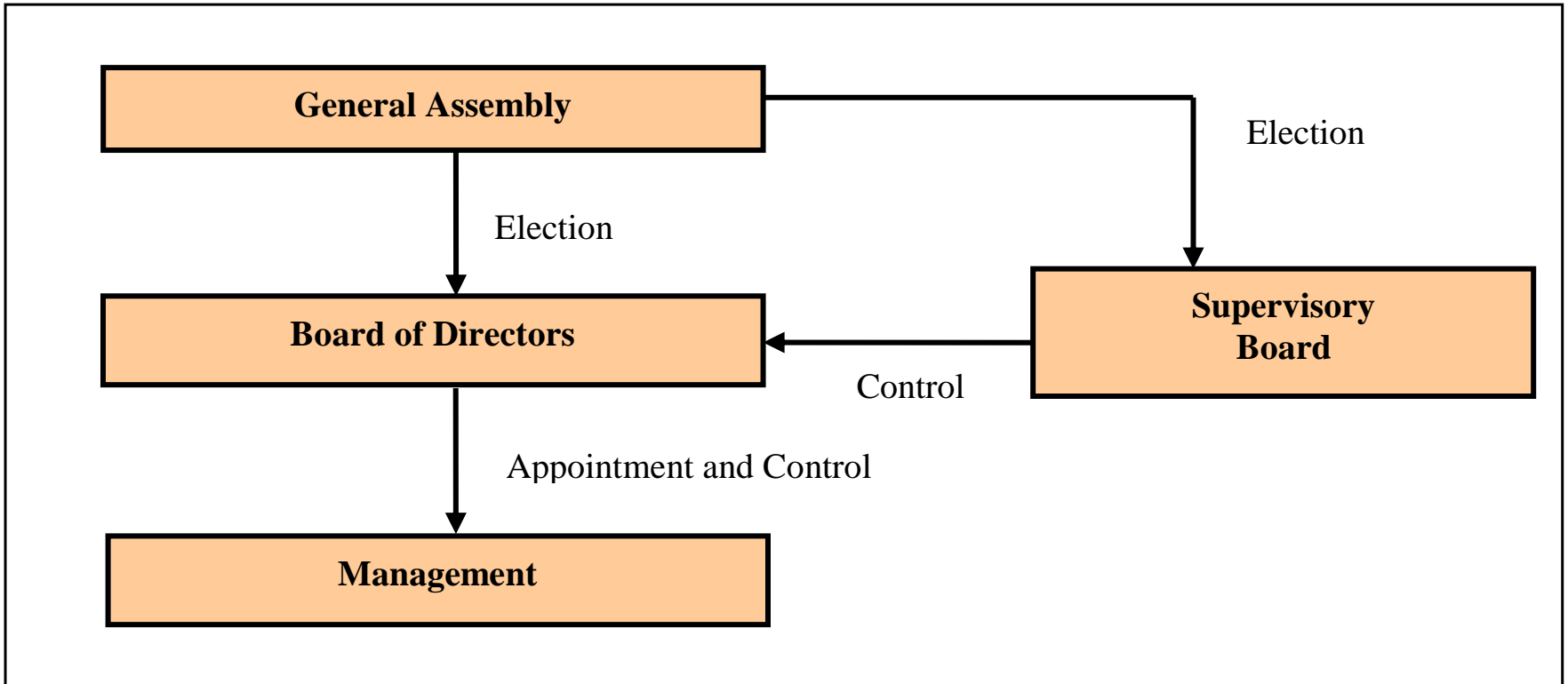
- Finding good directors (=board members)
 - Well-educated farmers
 - With personal ambitions
 - Regular re-election
 - Use member council

The cooperative is a complex organisation

- Cooperative is both an association of members and a jointly-owned enterprise
- Members have a threefold relationship with the cooperative:
 - Transaction
 - Finance
 - Control

	Traditional Cooperative	Hybrid Cooperative
Transaction	Only member transactions	Cooperative is diversified
	Members can deliver all products	Member has delivery agreement
	Service at cost	Obtaining profit
Ownership	Only members provide equity capital	Also non-members provide equity capital
	Unallocated equity	Individual equity shares
	Open membership	Closed membership
	Persons as members	Business as members
Control	One legal entity	Two legal entities
	Only members in board	Outside experts in board
	One member one vote	Proportional voting
	Homogeneous membership	Heterogeneous / Multistakeholder membership

Traditional Model of Internal Governance



Can one combine integration and differentiation in cooperatives?

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

- Members prefer differentiation
 - Members are autonomous entrepreneurs
 - Member differ in their resources and capabilities
 - Members differ in their interests and aspirations

Leveraging Complexity versus Suppressing Complexity

	Leveraging Complexity	Suppressing Complexity
Managing Perspectives	Staff with capacity for multiple perspectives	Staff focusses on uniformity
Managing Interaction	Promoting interactions among members	Control over interactions
Managing Standards	Establishing high standards and norms of acceptable practice	Strong uniformity of standards
Managing Commitment	Develop member commitment through value-based language	Impose member commitment through rational language

Conclusion

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