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**“CO-OPERATIVE IDENTITY” – A THEORETICAL CONCEPT FOR  
DYNAMIC ANALYSIS OF PRACTICAL CO-OPERATION:  
THE DUTCH CASE**

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**Abstract**

The "concept of the co-operative identity" (consisting from the definition, aims and functions of co-operatives and the so-termed co-operative principles) serves as a general theoretical background for the economic analysis of agricultural co-operation. The development of Dutch dairy co-operatives is used as a case study example, which suitably illustrates and represents the processes taking place in the European Union. Some suggestions for further research on the co-operative identity according to each country and different branches and sectors in order to see the substance of co-operation from different economic and non-economic aspects are proposed.

**Key words**

Agriculture, co-operative, identity, principles, strategy

**JEL classification**

Q13, L14, L22

**Introduction**

Agricultural co-operatives used to be considered as the **classical form of co-ordination of different and independent farmers**. Co-ops were founded in order to protect members against the large commercial and/or industrial companies which are often in a monopolistic or oligopolistic position. In Western Europe, for example in Holland and Denmark these co-operatives have emerged through a voluntary base (Meulenbergh, 2000). They have a so-called “double character”: toward the market: they are market oriented, but the surplus - made by the co-operative - goes to the farmer-members, in proportion of their product delivered/bought to/from the co-operative, after deducting the costs of the co-operative's operation and funds for reserves.

The co-operative is a **partial form of vertical integration**, which means that farmers retain a relatively high degree of independence of economic action: “Thus, it is possible to reduce transaction costs and uncertainty through the cooperative and maintain the entrepreneurial incentives through the market at the same time.” (Ollila, 1994: 88)

The **basic research problem of present paper** is that fact that the International Co-operative Alliance (ICA) Statement on Co-operative Identity (ICA, 1995) is **not a sufficient basis to enable the substance of co-operation to be grasped**, especially not from economic aspect. ICA has got - through member organisations - about 800,000,000 members which number underlines the importance of the statement. In some countries this “declaration” is the basis for legislative purposes and/or distribution of different types of subsidies, tax redemptions etc.

It is also point of importance that public opinion – thus the potential co-operative members form their view about co-operatives according to the widely known ICA statement (especially the principle of one-member – one vote). Therefore one can get an image of an uncompetitive, inflexible and ideologically influenced organisation without any relevance to the practical (economic) life. In turn, these kinds of opinions highly influence the public view of the economic justification and competitiveness of the co-operative form.

In this paper, a new “**co-operative identity**” concept will be applied to be able to carry out **dynamic** and (may be at a later stage of the research) **comparative analysis of** (agricultural) co-operatives. The concept of “co-operative identity”, consisting of a definition, aims and functions of co-operatives, as well as the so-termed co-operative principles, serves as a general theoretical background for the economic evaluation of the flexibility of agricultural co-operation. Approaching the concept of co-operative identity we are going to use the **Dutch marketing (dairy) co-operative development as an empirical example**, which suitably illustrates and represents the processes taking place in the European Union. Empirical evidence supporting the theoretical results are based on investigations of agricultural marketing and processing co-operatives in the dairy supply chain, focusing on the responses of Dutch dairy co-operatives to recent changes taking place in the business environment.

The following were essential to develop the concept and achieve the goal mentioned above:

- literature research on co-operatives and co-operation, agricultural marketing and agribusiness,
- collecting secondary (statistical) data,
- interviews, discussions of questions and problems on co-operative theory and practice with experts,
- excursions and meetings with people working in the field,
- case study analyses.

The remainder of the paper is organized as follows. In the second section the concept of “co-operative identity” (consisting from the definition, aims and functions of co-operatives, as well as the so-termed co-operative principles) will be discussed. In section 3 evidence on the Dutch dairy sector is presented, as a case study, providing empirical evidence of strong and flexible co-operative identity. Conclusions and some suggestions for further research are presented in the last section.

## “Co-operative identity” - a concept for dynamic and comparative analysis

### *The elements of the “co-operative identity” concept*

The idea of examining co-operative aims, principles and the needs of co-operatives according to each sector in agriculture was mentioned by Zwanenberg (1995). This was in contrast to those who had sought to identify a general set of co-operative principles (ICA, 1995). This was a starting-point for the author's attempts to develop a new concept of “co-operative identity” (Szabó, 1995, 1997).

The **elements of “co-operative identity”** are: the **definition, aims (purposes) and functions (roles)** of co-operative(s), and also the **co-operative principles**, which are also a major component of identity. This concept at first sight seems to be very similar to the new International Co-operative Alliance (ICA) Statement on Co-operative Identity (ICA, 1995), which “...includes a definition of co-operatives, a listing of the movement’s key values, and a revised set of principles intended to guide co-operative organizations at the beginning of the twenty-first century” (MacPherson, 1994: p. 8).

However, there are some **very important differences between the two concepts**. Firstly, on the one hand, it is necessary to underline the sociological and ideological aspects in the ICA case. The whole set of values and principles, even the terms used (value, movement, guide) to describe the identity represent a kind of **ideological atmosphere around the ICA co-operative concept underlining the social characteristics** and social aims of the co-operatives.

On the other hand, **the first concept contains additional elements of the co-operative identity** (besides definition and principles): purposes (aim) and functions (roles). These elements are more relevant to the explanation of the economic substance of (agricultural) co-operation. Developments (changes) in practical economic life with respect to (dairy) co-operatives can be also discussed using these terms.

Secondly, in order to define the economic substance, the **aims (purposes) must be distinguished from the functions (roles)** of co-operatives. In the case of a solid co-operative identity, the initial main “co-operative” aims (taking into account that the country, branch and sector in which they are operating remains unchanged) are largely fixed but the **functions of the co-operative are alter** over time, in order to be able to fulfil their basic task.

Since, in the case of the ICA statement, only very general aims can be found (including in the definition) and there is nothing written about the functions which are subject to change over time, we have to conclude that the **ICA concept is not a sufficient basis for grasping the substance of co-operation**, especially not from economic aspect..

#### *Definitions of the co-operative*

The theory and legislation on co-operatives contain hundreds of definitions that vary, sometimes fundamentally. The authors and "fathers" of those definitions sometimes consider their "child" as a short summary of the co-operative identity. In fact, they are not a sufficient means to find the substance of co-operation, particularly from an economic viewpoint. However, it is necessary to define what is meant by the term "co-operative".

In this study, as a starting point, we use the **basic American co-operative concept** which reflects three basic criteria: "A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use" (Barton, 1989a, p.1). The definition above can also provide the main points of the Dutch and Danish approach.

To be able to compare with the above and later on with the Dutch definition, it is useful to recall here the **definition of a co-operative included in the ICA Statement**: "A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." (ICA, 1995).

#### *Co-operative aims and functions*

The actual situation and circumstances will determine (at least in a working market economy) which objectives will arise from an economic environment. Basically two main groups can be distinguished:

1. economic and
2. social aims.

In the literature and in practice other basic aims can in places be found such as political, religious, and cultural ones, but these are not particularly relevant in this case. In general, to be able to grasp the co-operative identity from an economic perspective in a capitalist environment, two groups of aims are of crucial importance.

Generally speaking the main economic aim of the co-operative is to **increase the income of its members**. Mentioning other type of advantages, co-ops can reduce productions costs and also decrease and internalize transaction (information) costs, with a better flow of information on consumer demand. Co-operatives can also **lower both economic and technological uncertainties** and therefore **decrease transaction costs** (Harte, 1997; Hendrikse – Verman, 2001b; Ollila – Nilsson, 1997; Royer, 1999; Szabó, 2002; Szabó – Fertó, 2004a,b).

The real need for co-operative(s) is a question of importance concerning their long-term. In order to act efficiently in the interests of their members, real (mainly economic) incentives are essential for establishing co-operatives at the primary level and (in some cases) organising them into centres through regional organisations. The Dutch and Danish systems of "practical" agricultural co-operation are very good examples to underline the outstanding real economic necessities for establishment of a viable and flexible co-operative system.

In addition, there are **several non-economic reasons**, which can also be important for the successful development of co-operatives (Hakelius, 1996). First, co-operatives used to be considered as organised trusts. Second, the social and informal network of members or potential members is also relevant as a determining factor in decreasing transaction costs and in the process of establishing and the running of the activity of a co-operative. Better knowledge and confidence (Røkholt, 1999) among members is vital to how co-operatives can be highly efficient in terms of the management of human resources. Stryjan (1989) deals with organisational consequences of different membership and ownership issues in his seminal book, which also emphasises the human or "soft" side/way of organising activities and thus organisations.

Regarding human relations, there is another very important element that can determinate the success or failure of a certain co-operative: trust. "Trust (between the member and co-operative, author) is a major co-operative advantage" (Spear, 1999).

*Significance and different sets of the co-operative principles*

Although the co-operative identity has involved some other aspects beside the principles, for example the definition(s), aims, functions, etc. of the co-operative and co-operation, for most co-operators the so-called **co-operative principles are the cornerstones of the evaluation of the validity of a co-operative**. They can prove that a co-operative is genuine one or not. It is necessary to distinguish the principles from the policies and practices of co-operatives.

According to Barton (1989b: p.23) the **following terms can be distinguished**:

" A principle is a governing law of conduct, a general or fundamental truth, a comprehensive or fundamental law".

" A policy is a wise or expedient rule of conduct or management. It is not a universal, unchanging truth but a highly recommended course of action, given the situation."

" A practice is a usual method, customary habit, action, or convention; a frequent or usual action. Substantial flexibility exists ... respecting the cooperative definition, principles and policies."

In his paper, Barton gives a wider explanation of the terms outlined above, but these shorter definitions are appropriate for our purpose.

Amongst other points, Barton also states in his (quoted) paper that the co-operative principles with the definition of a co-operative "...preserve the essential objectives and uniqueness of the cooperative form of business" (Barton, 1989b: p.23). From this observation it is clear that the **co-operative principles are essential to grasp the co-operative identity**, which opinion is shared by other authors (Davis, 1995; MacPherson, 1994; Røkholt, 1999 etc.) as well.

According to Craig and Saxena (1984): "The strength of the principles has been that they are stated in a simple, strait forward and easily understood way. This is an important characteristic. Other characteristics include internal consistency and logic applicability to organizations irrespective of the external environment in which function; and long term relevance." (Craig – Saxena, 1984: vi)

According to Barton (1989b) there are **four distinctive classes of principles** which more or less overlap with the ICA principles (see later) and also with each other. These main groups are the **Rochdale**, the **Traditional**, the Proportional and the Contemporary class of co-operative principles. However, our main aim is not to examine the whole scale of the optional sets of co-operative principles; therefore, details of this four classes can be found in the book cited above (Barton, 1989b: 26-30).

The elements of the **Proportionality class** of principles of co-operatives are in accordance with Barton (1989b: p.27):

- "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 set** is almost the same, but differs from the previous one in the fact that the proportionality basis is not stressed in the first and is absent from the second point.

The performance or proportionality concept means, according to Diepenbeek (1989: p.38), that "...in the distribution of cost and proceeds of the cooperative amongst the members... an economic key is used, namely a distribution according to the economic principle of proportionality - at which the social key of personal need or social claims in redistribution of income is rejected." The proportionality concept (see Barton, 1989b: p. 31) can be considered a suitable starting-point for the analysis of co-operative identity and the developments currently in progress in European (for instance the Dutch) "practical" agricultural co-operation (van Diepenbeek, 1989: 38; van Dijk, 1994/1995).

Reflecting the recent changes in economic and social life all over the world, the ICA had established a working group (Böök, 1989, 1992) to **review the current basic values and principles of co-operation**. The new statement containing the final list of the new principles was made in Manchester in September

1995 (ICA 1995). The seven principles, which have been more or less accepted and implemented in most countries, are the following:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for Community

Three main relations exist between the member and the co-operative: the product, the capital and the democratic managing-control line. The 'economic' co-operative principles are based on the three main connections, as they were formulated in coherence with the elements of the co-operative's business activity with its members.

In order to be able to exploit economic (and non-economic) advantages, apart from the co-operative principles, the **marketing co-operatives use long, medium and short term contracts** to secure the raw material for themselves and to be able to govern the whole marketing chain (Hendrikse - Veerman, 2001a). The co-operative, **in the modern sense, is a hybrid formula**, because above the common property the members sign a special "multilateral contract". The statute or bylaw, which are the formal legal guarantees that the co-operative will never act against the members and that members will enjoy their advantages and fulfil their duties. The bylaws also defend third parties against the co-operative, making it possible to sign contracts and obtain loans and credits in the name of the co-operative. "The cooperative has, in a way, both markets and hierarchies within the same organisation" (Ollila, 1994: 88).

The organisational form and decision-making (control) mechanism of the co-operative and the so-called co-operative principles (ICA, 1995; Hakelius, 1996; Røkholt, 1999) can be taken into consideration as formal-legal securities (guarantees) of trust between the member and co-operative. Hence the so-called hold-up problem (Hendrikse – Veerman, 2001b; Karantininis – Nielsen, 2004; Royer 1999; Staatz, 1984) usually not as significant like in any other contractual relation between a farmer and Investment Oriented Firms (IOF).

Beyond the economic advantages of co-operatives there are exist some non-economic ones. Very important advantages of the co-operatives are based on the more closely and informal connection among the members and between members and co-operative. Røkholt (1999, 2000) distinguishes 4 types of member loyalty: power based, habit based, tradition based and solidarity based. These are the basis for the co-operative to be able to use the co-operative rationale as comparative advantage and able to develop strategies utilising strengths instead of eliminating weaknesses of the co-operative form as suggested by economic theories, like transaction cost based considerations. All in all, network of personal relations among the members represented and secured by co-operative principles are very important connections from the point of the co-operative rationale (Røkholt 1999).

We are going to analyse the main relations between various elements of the "co-operative identity" in the following section.

#### *Relations of elements of the "co-operative identity"*

After analysing the concept and the elements of the "co-operative identity" let us examine how these are connected in real life. It is also necessary to underline the main dangers awaiting co-operatives without a strong and clear identity. The main connections between the elements of the "co-operative identity" and also their relations to the "mental" and the "real" environment can be seen in Figure 1.

Naturally, in every society there is a quite broad system of "mental" values, which is the basis for every social action in the society, including economic activity. These types of values can be divided into a number of classes. The three most important ones, i.e. the economic, the social and the cultural group of values can be seen in Figure 1. These are cornerstones of a consistent system of social thinking, which is indispensable to the accomplishment of activities such as economic activity. The thin black arrow in the upper part of Figure 1 represents the influence of the values on the basic AIMS of co-operatives.

Naturally, these depend on the importance of each value in a society. If there is a consistent system of values, it is easier to set for the co-operatives basic aims, which can be valid for a very long time. The Dutch and Danish systems of “practical” agricultural co-operation are good examples to stress this aspect.

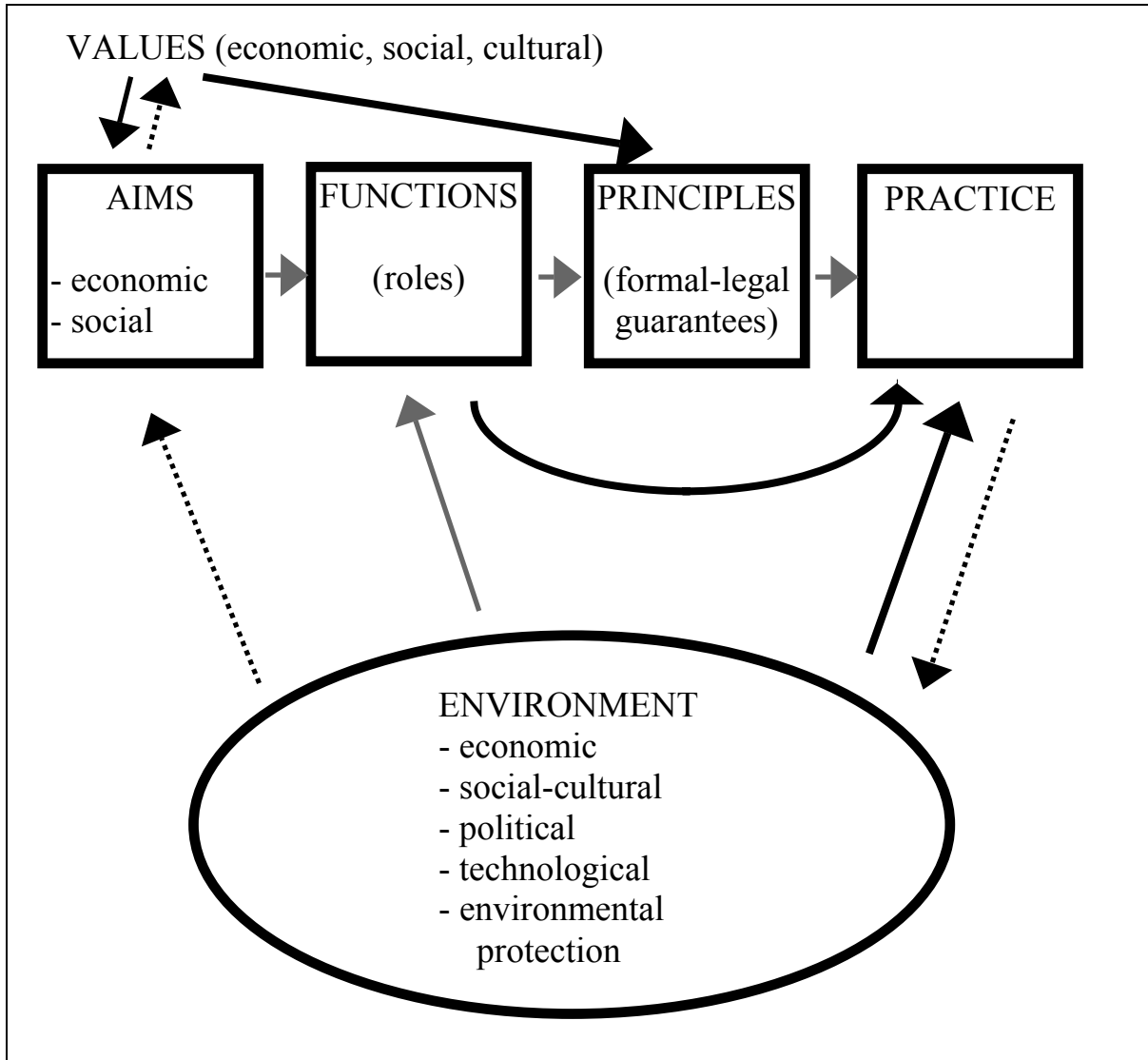


Figure 1 Elements of the “Co-operative Identity” and their Relation

Cataclysm, such as a change from one political-economic system to another, can change the spiritual basis for co-operation. To give an example the transformation process taking place in Eastern and Central Europe at present can be cited. Naturally, if a “co-operative identity” strong enough, the kinds of aims set by the co-operatives can exert an influence on the (economic, social, cultural, etc.) values, but most often this is quite a weak effect (see broken black arrow in Figure 1). Therefore it can simply be stated that co-operatives, similarly to any other organisation in economic or social life, are encased in the invisible spiritual environment of the system of social thinking and ethics of a society. Moreover, the widely observed new trends of globalisation and internationalisation which are emerging all over the world, particularly in Europe, broaden this spiritual environment.



Consequently, the aims of co-operation in a country or society usually depend on a broad-based system of values. There are many types of aims (purposes) which can be set by co-operators all around the world. The two most important types of basic aims, the economic and the social ones, are shown in the first square in the upper right part of Figure 1, which is the starting point of our actual examination process. As stated above, co-operators in every society can define other aims, such as cultural or religious ones, but the basic purpose of the co-operative activity should be the economic one; otherwise co-operatives cannot survive without the aim of the state or the government. If a co-operative has a sound economic and financial basis, it can set other aims, as can be observed in quite a number of countries. However, to be able to remain independent from the state and any other political or economic organisation, it is essential to organise economic activity in an efficient way. This is particularly true in the case of co-operatives with only economic aims.

Members or potential members can define the FUNCTIONS (roles) of the co-operative in order to be able to fulfil the main aims (see the grey arrow in Figure 1). Since research is to be carried out to examine the usefulness of the “co-operative identity” concept for an economic analysis, the case is being dealt with on a deeper level when co-operatives have only economic aim or aims. In the next section, as an example for the use of the “co-operative identity” concept, an examination process is to be performed to reveal how much the Dutch agricultural co-operative identity is sound and flexible in facing challenges.

In a market economy running in a normal manner, the economic purpose can remain the same, even in a changing business and social life. Naturally, the functions can alter according to changes in the economic, social, political and technological ENVIRONMENT. One can follow this way of influence of the environment on the (altering) functions of co-operatives in Figure 1 (see the grey arrow).

According to the functions within a consistent “co-operative identity” co-operative principles can be formulated as formal-legal guarantees. A grey arrow shows the connections in a normal situation between functions and the co-operative principles.

The “PRACTICE square” can be found at the end of the examination process, as shown in Figure 1. According to the types of the principle(s), co-operatives shape their own and different business in practice. The term “practice” denotes daily operations which are indispensable to the accomplishment of co-operative activity, above all taking economic activity as a basis. It is necessary to underline the fact that, in a strong system of co-operation, with a flexible and clear “co-operative identity”, the “practice square” is the final “module” in the process of formulating co-operative activity. The normal way of shaping co-operative business can be followed via the four grey arrows in Figure 1.

However, emphasis should be laid on the point that effects exerted on co-operative activity by the environment are questions of importance. The quite weak connection between the elements of the environment and the co-operative aims is shown in Figure 1 (see the broken black arrow). Naturally, fundamental changes in the economic, social, political or technological circumstances can exert an influence on the basic purposes of co-operatives, but the main line is how the different elements of the environment can influence co-operative activity through the environment- functions connection (see the grey arrow between them).

It is also true that the day-to-day practice of co-operatives has an effect on some elements of the environment, particularly if co-operatives can build up a so-termed countervailing power (Galbraith, 1963; NCR, 1993). However, connections of this type are relatively weak (see the broken black arrow), with the exception of some examples existing in a few “co-operative countries”. A common feature of co-operatives with an exceptionally strong and clear “co-operative identity” is the ability to restructure themselves in the adaptation process in response to new circumstances.

Lastly, but by no means least importantly, it is necessary to outline **some dangers with respect to co-operatives with no sound identity**. There are three main lines of potential dangers, as shown in Figure 1 by black thick arrows. When the values, listed above, by-pass the normal way of formulating co-operative activity (as can be seen in Figure 1 along the grey arrows), then there exist the danger that co-operative principles are being set without an examination of why they are indispensable guarantees. This type of misunderstanding can also be observed in the new ICA “Statement on the Co-operative Identity” (ICA, 1995). Neglect of economic analysis raises a question: whether it is worth formulating rules

(principles) hanging in the air. Naturally, it is quite simple to establish a set of consistent principles based directly on some social, political, cultural values or ethics. But it is not at all certain that co-operatives following these kinds of principles will be viable ones and can survive in the rapidly changing environment. So it is probably better to follow the “grey line” (see the grey arrows from the “aims square” to the “practice square” in Figure1) on the path of formulating co-operative activity, as can be observed in the case of the Dutch system of agricultural co-operation.

Another dangerous by-pass occurs when the “principles module” is absent from the above “grey line” and functions shape directly the day-to-day practice of co-operatives. In this case there exist no formal-legal guarantee according to which it is clear whether an organisation is co-operative or not. Therefore, the co-operative principle or principles are indispensable to the proving of the genuine co-operative substance. But it must be taken into consideration that co-operative principles can alter according to each country, sectors, branches, etc.. Therefore every kind of co-operation forms its own set of principles. One possibility is to accept and use the co-operative principles stated by the International Co-operative Alliance, after setting an aim or aims and a function or functions. It is also possible that one kind of co-operation can actually use only one principle, as the Dutch agricultural co-operatives do. But these types of formal-legal guarantees are essential to the distinguishing the Investment Oriented Firms (IOF) from the “co-operative type of business”.

Finally, it is necessary to analyse the third danger awaiting co-operatives in the rapidly changing world (see the thick black arrow from the environment to the “practice square” in Figure 1). So, there is a situation when there is nothing to do with “co-operative identity” concept at all. When elements of the environment, single or together, govern and conduct the every-day practice of co-operatives, there is no meaning if an organisation bears the name co-operative. This is because, when by-passing the normal route (see the grey arrows from the “aims square” to the “practice square” in Figure1), it is absolutely impossible to develop and save a sound co-operative identity. As the environment is changing day by day, ”practice” will actually respond without measuring changes which have been made with respect to the co-operative aims and functions. Principles will not serve as guarantees or will be totally absent. These types of action are very dangerous for any type of organisation, but are ultimately fatal for co-operatives. The three main dangers outlined above can be seen in Figure 1, indicated by thick black arrows.

Let us briefly turn to the Dutch example to use the “co-operative identity” concept for an economic analysis of co-operative development.

## **Revolution in evolution - the Dutch co-operative identity in action**

### *The substance of the Dutch co-operative identity*

As we are going to investigate the Dutch co-operatives, it is obvious that we should use the so-called Dutch definition, which with reference to an agricultural and horticultural co-operative is: "An economic organisation in which farmers or market gardeners collaborate permanently and put together parts of their economic activity (in general the market function), at joint risk and on joint account, in order to make the economic activity concerned as profitable as possible, while maintaining the self-supporting nature of the other functions of the agricultural enterprise." (NCR, 1993: 16)

As we can see from the Dutch definition, in the Netherlands (as in the USA) the co-operative is considered a "pure" economic association, only one of the potential organisational forms of the business activity, without any social aim. In the Dutch case a co-operative is considered mainly a marketing tool of the farmer-members. The main purpose (arising from the real economic need) in the Dutch case is only an economic goal: to increase the income of the members. In this sense, it is really important to take into consideration (especially in the case of marketing co-ops) two purposes of importance (van Dijk, 1994/1995):

1. the continuity of the market position of farmers and
2. the return on the capital invested by the farmer-members
  - in the farms and

- in the co-operative firm as well.

It is necessary to emphasise, that there is no direct social or public purpose aim. Of course there are some side effects and the increasing income of the farmers is good for their social position, but the social and the public purpose tasks are basically business of the state (social network). Concerning questions outside of the strictly speaking business activity farmers are organised by farmers' unions. To increase the income of their members is basically different from the basic purpose of the so-called agricultural production co-operatives (to offer working place and/or fulfil direct social aims).

The **basic aim** of the agricultural and horticultural co-operatives in the Netherlands has to be realised by the **extension of the economic activity of the individual farmers**. The expected continuity of the co-operative business connected to the members' activity is also one of the main incentives to establish and belong to a co-operative (Zwanenberg, 1995).

As we have stated above, it is really necessary to differentiate between the basic aims (purposes) and functions (roles) of the co-operatives in order to be able to explain the (economic) success and flexibility of a certain kind of co-operation. The Dutch example is a very good instance to describe the importance of this distinction.

One can find, as a common feature, that **in the past price leadership** was the term we could use to characterise briefly **the function of the co-operative(s)**. On the macro level they have been acting as a "countervailing power" and on the micro level they have offered an optimum (milk) price for all products of the members.

The **basic principle**, in the case of the Dutch marketing co-operatives, is that the **product is central**, that is the "principle of the principles".

As a basic point, it is essential to consider that in fact in the practical Dutch agricultural co-operation there is only one principle in practice in order to achieve the "co-operative" aim: **the proportionality principle** (van Diepenbeek, 1989: p.38; van Dijk, 1994/1995 etc.). According to this, the most important thing is that the surpluses of the co-operative were distributed between them in proportion to the turnover (transactions) of the co-operatives. The members have to make contributions (investments) and they receive voting rights, with a certain limit of course, in proportion to their business with the co-operative.

#### *Changes in the economic environment and developing new strategies*

In order to examine the co-operatives' answers to their challenges we have to take into consideration the economic (market) and political environment they are working in. Fundamental changes in the economic and market environment concerning agribusiness in European Union are the following:

- saturated market for agricultural products in the EU,
- new, more market oriented directions in the CAP,
- enlargement of the European Union,
- changes in the WTO regulations, increasing import,
- health- and environment-sensitive tendencies in consumer behaviour,
- the recent developments in Eastern and Central Europe,
- the increasing power of the retail networks and multinational firms in Europe.

Surrounded by these new circumstances, the (dairy) **co-operatives have to develop new marketing strategies**. Basically, in theory, "Agricultural co-operatives can follow two strategies to maintain market position and to gain new market access:

1. develop countervailing power; decrease competition among members; apply open membership policy; democracy; or
2. develop dominant positions in different market systems; manage quality and supply via competitive structures for members; hierarchy." (van Dijk, 1995: p.1)

Dairy co-ops, especially the larger ones, will possibly choose the second way ("Value added" strategy), while cattle and meat co-operatives (in the Netherlands) more or less follow the first one ("Bulk" strategy, cost efficiency).

We can also distinguish **internal and external marketing strategies**. According to van Dijk, (1994/1995), it is necessary to emphasise that the new marketing strategies will fundamentally be based on market-product combination using so-termed business units. That is the new wave of the way of thinking and also the manner of business. The external strategies (e.g. integral chain marketing) are developing and acting in order to come closer to the consumer, therefore co-operatives are going abroad (internationalisation strategy). Cross-border mergers, acquisitions and strategic alliances by co-operatives are all parts of that kind of (external) organisational innovation.

In order to fulfil new marketing strategies (especially brand development, product differentiation, vertical integration strategy), the co-ops **really need a huge amount of additional capital**. For example, to develop a new brand or make an acquisition is really expensive and the financing structure of the co-operatives (Zwanenberg, 1993; van Dijk, 1994/1995) is not fit for this. Therefore, co-operatives have trouble in following the strategies applied by the Investment Oriented Firms. Again, to be able to compete, the co-operatives need additional resources. The role of the so-called risk bearing capital will become very important in the future, as the type of business in which they are engaged requires a high level of risk bearing capital (LEI-DLO, 1995).

There are **two main groups of possible sources of additional investments**. Resources in the first group would be **offered by the members**. This could be limited in the future, because there exist two very important and current questions. Firstly whether the members can, and secondly whether they have the willingness to finance additional co-operative activities which are sometimes not really connected to their original business.

The **other solution is** to obtain this additional capital as **external risk bearing capital**. This has happened in Ireland in dairy co-operatives: they have floated co-operative shares on the stock exchange. It is a little strange, but it has been done and maybe that will be the future in the Netherlands and European Union. Another possibility in order to provide the necessary risk bearing capital for the new strategies is: to establish a special fund separately in the co-operative capital.

In order to obtain the necessary additional capital the co-ops **have to make some organisational changes**. Firstly, we shall deal with internal organisational questions. The co-operatives have to separate the first-stage (collecting, sorting the products etc.) and the second-stage activities (Poppe, 1993; van Dijk - Mackel - Poppe, 1993). The main aim of the latter activities is to increase the added value of the products. In order to be attractive for additional risk bearing capital the co-operatives have to make their organisation more clear to outsider investors. It is also necessary to do so for the success of their business activity as well.

Amongst external organisational strategies, the role and methods of the **internationalisation process** of the agricultural co-operation is one of the most up-to-date and interesting questions. Some acquisitions and mergers have already taken place abroad, and we can say that the Dutch marketing co-operatives, especially the dairy co-operatives, are going to other countries. (Bijman, 1998; van Bekkum - Nilsson, 2000a,b; Boon, 1998; van Dijk - Veerman, 1990; Helder, 2000)

#### *Limitations of traditional marketing co-operatives and emerging new co-operative models*

Is there any limitation for co-operatives in the current fundamental of changes of agribusiness environment? We stress that in differentiated product markets co-operatives need additional risk-bearing capital to be able to compete, difficult to provide due to their financial structure. This fact shed light on the problem, under what circumstances is better to choose an other co-ordination-organizational form?

Searching for an appropriate governance structure, it is more precise if (according to Hendrikse and Veerman 2001b) we are going to distinguish **two specific hold-up problems** in agricultural production chain: first, prevent post harvest hold-ups (for perishable products) and second, the necessity to attract outside (risk bearing) investments (funds). The hold-up problem is significant in the dairy and fruit-vegetable sectors, explaining the existence high share of co-operatives in these industries (Staatz 1984; van Bekkum and van Dijk 1997; Kyriakopoulos 2000). However, in the new co-op models there are additional contracts between members and the co-operative, forcing the members to compete inside the co-op. In fact some of the new co-operative models are acting as market institutions themselves (Cook,

1995; van Dijk, 1997; van Bekkum and van Dijk, 1997; Meulenbergh, 1997; Nilsson, 1997, 1998, Ollila, 1989; Royer, 1999).

Because of the countervailing power feature of the marketing co-operative, **both of the problems can be solved in homogeneous product markets and when the investments of the co-op are not specific**. However, in differentiated product markets marketing co-operatives are not able to provide the necessary level of investment with a high level of asset specificity, like the development of brand names (Hendrikse and Veerman, 2001b). The **democratic decision making will be more problematic** in a co-operative (Hendrikse and Veerman, 2001b), with heterogeneous members due to increasing internal organization costs (Harte, 1997). However, the farmer-member has to make decisions to invest; taking into consideration to put money into his farm and/or into the co-operative, therefore to collect enough capital for further VI is challenged by the opportunity to invest into the farms' assets. It is difficult to collect financial funds provided by outsiders for the co-operative as well, because of the principle of domination of membership control set worse terms for them. Therefore **the second hold-up problem can only be solved by a switch from marketing co-operative to a conventional firm** (Hendrikse and Veerman, 2001b). Sykuta and Cook (2001) also describe **alternative producer organizational structures** with better defined property rights, appreciable and transferable equity shares, specific delivery rights etc.

We may conclude that agricultural co-operatives have advantages, where there is a significant market failure problem, especially in the cases of some perishable products like fruit-vegetables and milk, and when the market is not saturated. When the market-mechanism is working well and the different types (contracting, monitoring, enforcement) of transaction costs are not high compared to the internal organization costs, then a VI (and the co-operative organizational form) is not as desired governance structure and/or marketing strategy, than in the previous case (Harte, 1997). Hendrikse and Veerman (2001a) also argue that in differentiated product markets with a high level of asset specificity, a marketing co-operative is probably not the best solution as a governance structure. They predict governance structures in which **members (farmers) have less decision power**. However, recent empirical evidence is sparse in this regard, and various studies reported controversial experiments on the viability of the co-operatives in modern agriculture.

#### *The Dutch co-operative identity: flexible and strong*

Such types of developments will, naturally, have effects on the co-operative identity. **The main aim of the co-operatives is the same: to increase the income of the members**. But this increase can in the future be divided into two parts. The first part is connected with the product delivered by the member (e.g. milk price), while the second part relates to the capital provided for the co-operative. So, the **importance of the capital line** (compared to the product line) **does increase**, in order to be able to obtain the necessary additional resources (van Dijk, 1994/1995).

The main aim and the principle of principles (the product is central) are still valid, but there is a **fundamental change in the basic function**. In the sense of recent developments, instead of price leadership a kind of **market leadership** is the main role to be performed. Co-operatives in the period of the newest generation, in order to come closer to the consumer and to translate consumer demand, do and will act as market institutions. At the same time they will stimulate competition on the basis of quality, to be able to fulfil their basic aim (van Dijk, 1994/1995).

What are the **consequences for the co-operative principle**, or principles? Nowadays, the proportionality principle seems not to be true in every sense, particularly in the case of the dairy co-operatives (van Dijk – Mackel – Poppe, 1993; Poppe, 1993). However, the proportionality principle is the main feature of most Dutch agricultural co-operatives, this being attested to by their stature.

It is necessary to underline the flexibility of the Dutch system of agricultural co-operation to the new circumstances. Changes in function in order to come closer to the consumer mean that the importance of the main lines between the members and the co-operative are changing. Therefore, to keep their co-operative character in the future, it is likely that Dutch co-operatives will be subject to changes in their organisational structure (van Bekkum, 2001; van Dijk – Mackel – Poppe, 1993; van Bekkum – van Dijk, 1997; Kyriakopoulos, 2000; Poppe, 1993).

## Conclusions: extended interdisciplinary research activities needed

Co-operatives working in the EU, especially in Holland and Denmark, are good examples, of how agricultural co-operation can solve many “traditional” transaction cost related and agency problems and adapting themselves to the changing environment. In order to be able to fulfil the basic co-operative aims and to be able to compete in a more market-oriented environment (e.g. more liberal agricultural policies, opening European and world market, etc.) they will execute **new marketing strategies**. To be able to implement such new marketing strategies, co-ops have to collect more risk-bearing capital and this is currently precipitating **some fundamental financial and organisational changes** in Western European agricultural co-ops. To be able to keep the basic co-operative character, they are undertaking internal and external organisational changes, which in a number of cases will create so called New Generation or Entrepreneurial-type Co-operative Structures/Models.

Economic co-operative theories alone (which have been used to date) are insufficient to define the substance and advantages of co-operation from all aspects (Røkholt, 1999, 2000). Therefore, it is necessary to **propose new, interdisciplinary research** (including comprehensive theoretical overview) **on the substance of co-operation** and emphasise the **importance of drawing together insights** across **the social sciences**, using the results and contributions of the various fields of economics, law, marketing, management sciences, and also some elements of philosophy, psychology, sociology, etc.. This would be based on a positive (economic-analytical) scientific approach. It would differ from the ideological-normative approach to co-operatives, since it would preserve its **scientific character** and **neutral fashion without** normative judgements or **actual use for political purposes** and/or social changes. In accordance with the ideas outlined in this paper it would be useful to extend research activities (including a comprehensive theoretical overview) on the substance of co-operation and "co-operative identity". It would be important and useful to carry out **comparative research on co-operative identity according to each country and different branches and sectors of the economy** in order to see the substance of co-operation from an economic aspect. In the sense of the considerations proposed in this paper can be regarded as a preliminary study for further research. The author would be grateful to any comments and/or suggestions, including ones for future collaboration in any issues addressed in the paper!

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