Agri-food cooperative enterprises: From Ballestero to Bijman

Juan Juliá Igual and Elena Meliá Martí

ABSTRACT: Agri-food cooperative enterprises have developed significantly in the EU and are expected to take on an even greater role in the European agri-food industry. Professor Ballestero’s theory and Decalogue for the agricultural cooperative enterprises are particularly relevant. We relate them to the well-known recent European Commission report on farming cooperatives in Europe, led by professor Bijman, and considered to be the largest study to date. Our analysis clearly shows the extent to which professor Ballestero’s theses are still completely valid today.

KEYWORDS: Agri-food cooperatives, agri-food cooperatives management, cooperatives’ efficiency.

JEL classification: Q13, J54, P130.

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Empresas cooperativas agroalimentarias: de Ballestero a Bijman

RESUMEN: Las empresas cooperativas agroalimentarias sin duda han tenido un importante desarrollo en la UE, y están aún, si cabe, llamadas a tomar un mayor protagonismo en el sector agroalimentario europeo. La teoría económica de las cooperativas del profesor Ballestero y su decálogo para la empresa cooperativa agraria son particularmente relevantes. En este trabajo, a partir de un análisis por contraste de sus postulados y el conocido y reciente Informe de la Comisión Europea sobre las cooperativas agroalimentarias en Europa, dirigido por el profesor Bijman, que constituye el mayor estudio realizado hasta la fecha, mostramos que muchas de las tesis del profesor Ballestero no solo se han demostrado acertadas, sino que mantienen aún hoy plena vigencia.

PALABRAS CLAVE: Cooperativas agroalimentarias, gestión de cooperativas agroalimentarias, eficiencia de cooperativas.

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1. **Introduction**

This article aims to highlight the interesting and fruitful work carried out by Enrique Ballestero in the field of cooperatives in the eighties. Not only did Ballestero provide an economic theory of cooperatives but he also conducted a discussion on their entrepreneurial behaviour, enabling to define what can be called Ballestero’s vision of the role of cooperatives as enterprises, especially in agri-food markets.

After comparing his work with the evolution and current position of agri-food cooperatives in Spain, there is no doubt that it is still completely valid today.

Being an excellent agricultural economist, the comprehensive Ballestero’s work went far beyond contextualizing cooperatives as a mere legal form. He focused on their ability to provide invaluable services to farmers and to the rural economy. In his article “Gestión empresarial y análisis de los aspectos económicos de las agrupaciones canarias” (“Business management and analysis of the economic aspects of the Canarian Island groupings”), published in *Revista de Estudios Agrosociales* (Ballestero, 1986) he outlined his “Decalogue for the management of cooperatives”. It is surprising how his hypotheses, which are discussed in more detail below, are still valid. The trajectory of some of our agri-food cooperatives would have been quite different if they had followed his Decalogue, especially in a context of economic crisis. In turn, cooperatives operating more in line with his guidelines are presenting fair positions in the Spanish and European rankings of agri-food cooperative enterprises.

In this paper, Ballestero’s Decalogue is compared with the main conclusions of what is now considered the most comprehensive and internationally recognized study in the field of agri-food cooperatives in the European Union, funded by the European Commission, and directed by professor Bijman (2012). This report aimed at obtaining the basic knowledge necessary to help producers to form cooperatives as a tool enabling them to consolidate their market orientation. Such study analysed the main features of European cooperatives, their position in the value chain, differences between Member States and production sectors, and the need for support measures to foster this type of companies.

2. **Cooperatives as partnerships carrying on commercial activities**

Enrique Ballestero was fully convinced of the role that cooperatives can and should play in society, due to their contribution to social welfare. In his text “Economic Theory of Cooperatives” (Ballestero, 1983), he stated: “We can presume that cooperatives play a specific role in certain fields of economic policy, whereas corporations would not be able to take on the same role with the same effectiveness, at least in certain aspects”.

The arguments emphasized by Ballestero’s work will be discussed to underline how useful this legal form was in the past and still is today for the economic development of rural regions. In many cases his study provides us with his vision of cooperatives and their role, which in the current scenario is proving to be quite accurate. In this
regard, Ballestero highlighted the following distinguishing features of the cooperative model:

- **Cooperatives are companies of individuals which train entrepreneurs.** Enrique Ballestero stated that one of the most relevant shortcomings for businesses has been the lack of entrepreneurs with proper education and training. He explained that although entrepreneurs could be educated in business schools, universities or vocational training centres, cooperatives play a key role in entrepreneurship training, especially in the agricultural industry. This is due to the fact that individuals form cooperatives. Capital companies, with the exception of family companies, make the availability of such training for employees less likely, given that shareholders are mainly expected to provide capital, and not to be personal or actively involved in the company operations.

  At present, the economic backdrop of the crisis makes it necessary to have entrepreneurs with proper training, capable of developing projects that generate employment and play a productive role, exhausted in certain industries that still depend on the old economic model. However, this vision of cooperatives as “schools for entrepreneurs” currently contrasts with reality. Except for certain cases, such as Andalusia, the cooperative is the model least inserted in entrepreneurship (Juliá et al., 2014). Several studies on entrepreneurship and social economy (Melián and Campos, 2010; Seguí-Mas et al., 2013; Juliá et al., 2014) show that the number of companies created as cooperatives or social welfare companies is still very small. This lack of cooperatives is a symptom of the poor knowledge of young university students about different associative formulas (Lejarriaga et al., 2013).

- **Cooperatives foster teamwork.** Ballestero (1983) underlined the quality of cooperatives for team building. Unemployed individuals who form production cooperatives have gone from a passive attitude after working as part of a team, to a more business-minded attitude. In addition, Ballestero forecasted a reduction in the number of salaried employees in the long term due to technological innovations, suggesting that training people for teamwork would be key to future economic and social development. Ballestero’s vision of cooperatives suggests that the reason for the disconnection between most recently established companies and the figure of cooperatives should be analysed.

- **Cooperatives are partnerships.** Ballestero (1983) highlighted the personal nature of cooperatives, which gives members a real opportunity to participate, enabling them to be closer to the company. In addition, agri-food cooperatives in the last few years have been particularly active in the field of business mergers. Although this process has led to a decrease in the number of cooperatives, the social base has increased, integrating a greater number of partners, in spite of the fall in the number of farmers.
TABLE 1
Evolution of the agri-food cooperatives in Spain (2007-2012)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2011</th>
<th>2012</th>
<th>Var 2011/2012 (%)</th>
<th>Var 2007/2012 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nº coops</td>
<td>3,996</td>
<td>3,861</td>
<td>3,844</td>
<td>-0.4</td>
<td>-3.8</td>
</tr>
<tr>
<td>Nº associates</td>
<td>1,160,337</td>
<td>1,144,070</td>
<td>1,179,323</td>
<td>3.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Turnover (mill €)</td>
<td>20,875</td>
<td>23,826</td>
<td>25,696</td>
<td>8.0</td>
<td>23.0</td>
</tr>
<tr>
<td>Employment</td>
<td>91,454</td>
<td>97,615</td>
<td>98,999</td>
<td>1.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Turnover per worker (€)</td>
<td>228,256</td>
<td>244,078</td>
<td>259,555</td>
<td>6.3</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Source: Cooperativas Agroalimentarias (2014).

- **Cooperatives are understood as commercial companies created to generate profit.** Ballestero’s discussion (Ballestero, 1979 and 1983) regarding whether or not cooperatives are commercial companies is quite interesting and ends with the statement “if cooperatives are businesses that operate in the market, and as a logical consequence, they earn some profits, they must be regarded as commercial companies”. From the standpoint of the legal nature, this argument merits special interest, since it contrasts with the traditional separation between commercial companies and cooperatives, which in some areas are observed as special commercial companies.

3. **Decalogue for the management of cooperatives (Ballestero, 1986)**

   *One: “A good manager is the best investment, but is expensive. A small cooperative cannot pay for a good manager, but if several unite together, they can”.*

   Ballestero pointed out that cooperative leaders must be honest and effective administrators, but also good managers. This quality implies a certain detachment from the routine, seeking new opportunities to increase the company’s profits. The difficulties some cooperatives suffer in attracting competent managers continue to be a recurring issue, and may be due to the fact that cooperatives are not willing to offer them adequate remuneration. Coinciding with Ballestero, Bijman et al. (2012) conclude with the key finding that greater professionalism of governing bodies and cooperative managers is needed. Ballestero argued that “only reliable leaders, with a solid reputation and adequate training, and who are willing to dedicate years and years to the processes of communication and discussion together with their group of partners will reach the expected success”. He indicated that leadership requires professionalism and management efficiency. Therefore, appropriate remuneration is inevitably necessary to be able to hire such leaders and managers. Ballestero suggested that cooperatives could merge or integrate to reach a size that allows them to hire good managers.

   It is with good reason that the cooperatives that have consolidated their position through integration processes have also managed to acquire a highly professional management. There are many examples of Spanish cooperatives that have followed this
scheme. These include, *inter alia*, COREN, the AN group, DCOOP and ANECOOP, all of which are second degree cooperatives with a turnover of over 500 million € in 2012; or COVAP or COBADU, first degree cooperatives with a turnover beyond 200 million €. It is thus not surprising that the Director General of Agri-food Cooperatives of Spain, Eduardo Baamonde, recently pointed out this need: “As in previous generations, in which our parent farmers joined to form cooperatives, cooperatives now have to join together to form stronger structures”. In response to this need, the Law 13/2013, of August 2, was enacted to promote the integration of cooperatives, highlighting the commitment of the Ministry of Agriculture, Food and Environment (MAGRAMA), as well as the newly approved Royal Decree 550/2014, of June 27, that establishes the minimum revenue required for cooperatives in each sector to obtain recognition as a primary associative entity.

Bijman et al. (2012) pointed out the atomization and drop in the average size of Spanish agri-food cooperatives as one core weakness. Although the report hints that integration and concentration initiatives grow, it suggests that a great deal of effort remains to be done. According to the report, the lack of coordination of regional policies in Spain has led to inconsistencies that complicate interregional cooperation, and tend to block growth strategies of cooperatives, which are occasionally limited in scope to specific regions.

Two: “Accounting is like the memory of a company; a cooperative with bad accounting will have a bad head just like someone who is forgetful”.

Enrique Ballestero recognized the importance of keeping good accounting records and having information readily available to make adequate decisions. This premise is very closely linked to the first, since keeping good accounting records depends on having trained managers, which are frequently missing in smaller cooperatives. The importance of accounting records has been reinforced since the end of 2003, with a new regulation - Order ECO/3614/2003 of 16 December 2003. This regulation approved the accounting standards for cooperative companies, by which financial reporting standards adapt to the peculiarities of these entities.

Three: “The partners are the capital of a cooperative. The cooperative will become decapitalized when the partners are unhappy”.

Despite its overwhelming logic, this is a condition that is not always met. And the years have proven that Ballestero was right once again. While cooperatives are created to meet the partners’ needs, the reality is that over time, the management structure of the cooperative and the eventual conflicts among partners have led to decisions that do not always contribute to achieving the goals for which the cooperative was created. Many studies point to the influence of “personal interests” and “localisms”, which have been responsible for the failure of more than a few processes of business partnership and cooperative integration. Although such processes might be the best choice from a business standpoint, they have ultimately been aborted for the sake of maintaining territoriality, the composition of a governing board, or simply due to the existence of rivalries among cooperatives’ chairs (Melia-Martí and Martínez-Garcia, 2015).
Four: “Fixed costs. Beware! If some members leave, the fewer the partners are, the more will each one have to pay”.

Five: “A cooperative makes a mistake if it depends on official low rate loans for erecting useless and expensive buildings”.

The fourth and fifth premises are highly interrelated and unfortunately have emerged in times of crisis in Spanish agri-food cooperatives. It is no wonder that in most Spanish regions, investments have taken place in cooperatives with the help of public support but with little justification from the viewpoint of their expected revenue. Juliá et al. (2011) show that the inefficient use of public aids does not follow a clear pattern in other European countries. For example, in Ireland, most public aid to agri-food cooperatives has been focused on supporting industrial processes leading to a higher added value.

It is not surprising that the market crisis, given the large fixed costs, small size and weak management of most cooperatives, has decreased business results and partners’ remuneration. This process has prompted partners to drop out, creating a vicious circle where fixed costs per partner increase even more, finally leading many small cooperatives to bankruptcy. There are more than a few recent examples of how some of these factors have led to failure, such as the well-known of Acorex, a second degree cooperative. Jose María Monteagudo, the first general manager of Acorex, signaled some of the reasons for its current critical position (Hoy.es/Extremadura, 2015): “The cooperative model is in crisis because it has not re-invented itself. It’s nice for cooperatives to sign up when they want and to have advantages when things go well, but it creates instability when things are not going well. When there are problems, the partners decide to leave”.

Six: “Dear manager: Don’t complain when partners deliver lower quality products. Have you set fair prices which pay for the quality of the products?”

Agri-food Cooperatives, the representative organization of cooperatives in Spain, considers quality (business and agri-food) among the elements to be strengthened. It is not surprising that 26.6 % of the total number of primary cooperatives, which are members of Agri-food Cooperatives with a turnover of more than one million euros, have ISO 9001 certified management systems, and 5.8 % have ISO 14000 or EMAS certified environmental systems. Also, 20.3 % of the total number of primary cooperatives market products included under quality labels such as DOP, IGP, TSG or brands, and 23 % under private international or integrated production standards. (Cooperativas Agroalimentarias, 2009).

Seven: “In this cooperative, money is not thrown away. Perfect. But operating costs are high and it is not profitable. Why? Because there are partners who sell to third parties. Then the cooperative should also buy from third parties. Law prohibits this. Well, then, we change the law”.

Enrique Ballestero was very clear about this point, and again over time he was right. Current cooperative legislation allows for a certain degree of activity with third parties, although related profits and losses should be separated from profits and losses generated by business activities with the partners. Allocations to reserves should
be different in both cases, as well as the rate at which the operations are taxed. In fact, the tax treatment of cooperatives (Law 20/1990, art. 14) enables limits to be expanded if there is a justified cause - when, as a result of exceptional circumstances not attributable to the cooperative itself, the cooperative may need to expand its activities by certain terms and amounts. Noteworthy is that, given the fall in the number of partners in some cooperatives, especially in the small ones, the business activity with third parties is what has enabled cooperatives to stabilize their profits and losses, and survive as an enterprise.

Eight: “Better prices for partners is a great motto. However, partners should provide more capital so that the cooperative is not decapitalized”.

Partners usually face constrains on financial resources (Bel and Fernández, 2002; Rocafort, 2010). It is not surprising that the cooperative legislation has echoed this need, including various financing instruments beyond share capital (obligations, joint accounts, and special shares and ownership interest titles). The White Paper on Companies Financial Sector in Spain conducted by Barea and Monzón (1992) studied a sample of more than 600 Spanish agri-food cooperatives (the most extensive study to date in Spain), stressing the weak capitalization of the agri-food cooperatives, where own resources averaged only 36 % of the total financial resources.

Concerning agri-food cooperatives in other EU countries, the Bijman report noted that, while capitalization can be a problem in cooperatives of some regions in which there is no availability of venture capital, or in the cooperatives that are not able to provide the appropriate incentives to partners, it is neither the only nor the most important barrier to the development of cooperatives. The study showed that it is often the business model, or the cooperatives’ lack of profitability, what pose an even more serious limitation.

Nine: “Things are not so bad when all cooperatives earn a profit, although some earn more than others”.

This statement is still completely valid. The main aim of agri-food cooperatives is to obtain the best remuneration for their partners’ production, and to reduce the volatility of prices of their production factors and products. However, it is not uncommon to find cooperatives that complain about the progressive reduction in their revenues as a proof of commercial weakness. This is one of the hypotheses that the Bijman investigation attempted to prove in one of its case studies, which was conducted in the dairy sector (Hanisch et al., 2013). This study found that a large market share for cooperatives in a country leads to a higher price and a lower price volatility. Recently, the economic media echoed the fact that, as a result of the crisis in the dairy sector, in the Baltic countries a liter of milk was sold for 0.18 cents, while in Finland virtually all of the milk is marketed through a cooperative group (VALIO) where partner farmers received 0.30 cents/liter (Baamonde, 2015). However, it must be acknowledged that the likelihood of a cooperative to succeed in defending its partners’ income is directly related to business performance. This fact is difficult to occur in a context of cooperative atomization, such as the existing in Southern European countries.
<table>
<thead>
<tr>
<th>EU Member State</th>
<th>Total number of cooperatives</th>
<th>Total number of members</th>
<th>Turnover (m€)</th>
<th>Turnover/Number cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>301</td>
<td>-</td>
<td>3,257</td>
<td>10.82</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>900</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>548</td>
<td>524</td>
<td>1,327</td>
<td>2.42</td>
</tr>
<tr>
<td>Denmark</td>
<td>28</td>
<td>45,710</td>
<td>25,009</td>
<td>893.18</td>
</tr>
<tr>
<td>Germany</td>
<td>2,400</td>
<td>-</td>
<td>67,502</td>
<td>28.13</td>
</tr>
<tr>
<td>Estonia</td>
<td>21</td>
<td>2,036</td>
<td>512</td>
<td>24.38</td>
</tr>
<tr>
<td>Ireland</td>
<td>75</td>
<td>2,01,684</td>
<td>14,149</td>
<td>188.65</td>
</tr>
<tr>
<td>Greece</td>
<td>550</td>
<td>-</td>
<td>711</td>
<td>1.29</td>
</tr>
<tr>
<td>Spain</td>
<td>3,844</td>
<td>1,179,323</td>
<td>25,696</td>
<td>6.68</td>
</tr>
<tr>
<td>France</td>
<td>2,400</td>
<td>858,000</td>
<td>84,350</td>
<td>35.15</td>
</tr>
<tr>
<td>Croatia</td>
<td>613</td>
<td>10,734</td>
<td>167</td>
<td>0.27</td>
</tr>
<tr>
<td>Italy</td>
<td>5,834</td>
<td>863,323</td>
<td>34,362</td>
<td>5.89</td>
</tr>
<tr>
<td>Cyprus</td>
<td>14</td>
<td>24,917</td>
<td>62</td>
<td>4.43</td>
</tr>
<tr>
<td>Latvia</td>
<td>49</td>
<td>-</td>
<td>1,111</td>
<td>22.67</td>
</tr>
<tr>
<td>Lithuania</td>
<td>402</td>
<td>12,900</td>
<td>714</td>
<td>1.78</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>55</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,116</td>
<td>31,544</td>
<td>1,058</td>
<td>0.95</td>
</tr>
<tr>
<td>Malta</td>
<td>18</td>
<td>1,815</td>
<td>204</td>
<td>11.33</td>
</tr>
<tr>
<td>Netherlands</td>
<td>215</td>
<td>140,000</td>
<td>32,000</td>
<td>148.84</td>
</tr>
<tr>
<td>Austria</td>
<td>217</td>
<td>306,300</td>
<td>8,475</td>
<td>39.06</td>
</tr>
<tr>
<td>Poland</td>
<td>136</td>
<td>-</td>
<td>15,311</td>
<td>112.58</td>
</tr>
<tr>
<td>Portugal</td>
<td>735</td>
<td>-</td>
<td>2,437</td>
<td>3.32</td>
</tr>
<tr>
<td>Romania</td>
<td>68</td>
<td>-</td>
<td>204</td>
<td>3.00</td>
</tr>
<tr>
<td>Slovenia</td>
<td>368</td>
<td>16,539</td>
<td>705</td>
<td>1.92</td>
</tr>
<tr>
<td>Slovakia</td>
<td>597</td>
<td>-</td>
<td>1151</td>
<td>1.93</td>
</tr>
<tr>
<td>Finland</td>
<td>35</td>
<td>170,776</td>
<td>13,225</td>
<td>377.86</td>
</tr>
<tr>
<td>Sweden</td>
<td>30</td>
<td>160,350</td>
<td>7438</td>
<td>247.93</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>200</td>
<td>138,021</td>
<td>6207</td>
<td>31.04</td>
</tr>
</tbody>
</table>

Source: COGECA (2014).

It is no wonder that the largest cooperatives have had the highest rate of growth and business development in recent years, accounting for more than 60% of the turnover of the top 100 EU agri-cooperatives (223 billion of a total 360 billion €, COGECA, 2014) (See Figure 1).
Ten: “For farmers to trust cooperatives, management has to be explained on the first day, with words, and on the second day, with facts.”

This premise keeps being one of the key elements for the proper development of the agri-food cooperatives. The Bijman report highlighted the need for a commitment between the partner and the cooperative, which is determined by four types of factors: economic (price and quality of the services), organizational (active participation, transparency in decision-making and communication), regulatory (socialization) and affective (operational identity).

4. Conclusions

The work conducted by Professor Ballestero on agri-food cooperative enterprises over the 1980s and 1990s is particularly relevant and still completely effective nowadays. His vision and recommendations are very much in line with those made in the comprehensive study directed by professor Bijman in 2012. Both Ballestero and Bijman share a positive view of the role of cooperatives, and both argue that the financial position of farmers should be reinforced. Cooperatives’ role is of great relevance for farmers to obtain more added value in the food value chain, something that is still identified today in the Batzelli report to the European Commission as a major
problem for EU agriculture due to the enormous asymmetry within the value chain, where atomized farmers face heavily concentrated large operators (Batzelli, 2009).

Both authors call for a more entrepreneurial concept of cooperatives, identifying a need for greater market orientation, greater innovation in products and processes and a more functional coordination between partners and cooperatives as well as in the value chain. Internationalization is also necessary in an increasingly open and global economy. The Bijman report reminds that today in the EU only 46 cooperatives are transnational, i.e. integrating partners from several member states.

Another point of coincidence between Ballestero and Bijman is the need for improvements in the management and governing bodies of these companies. Ballestero insisted on the importance of business and technical training for management, chairs and partners. Bijman also noted a need for a more professionalized governing model and encouraged managers and governing bodies to receive training and collaborating in the activities programmed by COGECA in Brussels.

Finally, both Ballestero and Bijman’s team argue that there is a need for the cooperative enterprise to reach a larger size, acknowledging the importance of integration and merger processes. The Bijman report is conclusive and evidenced the close relationship between increased market share, size of the cooperative and increased business efficiency and competitiveness, clearly making reference to the agri-food cooperatives in North European countries. In conclusion, professor Ballestero’s theses on cooperative agri-food enterprises remain completely valid as can be observed through their comparison to the most recent and well-known report on EU farming cooperatives.

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