Support for Farmers' Cooperatives

Case Study Report
Cebeco

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European Commission

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Support for Farmers' Cooperatives; *Case Study Report* **Cebeco**

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Preface and acknowledgements

In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", in order to provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, by the European Commission, and by national and regional authorities in their effort to encourage and support the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project, one of the topics of research is the development and performance of second-tier cooperatives. This case study report investigates the rise and fall of the Dutch second-tier multi-product cooperative Cebeco[1].

Most of the data collection for this report has been done in the spring of 2012.

In addition to this report, the SFC project has delivered 32 other case study reports, 27 country reports, 8 sector reports, 6 EU synthesis reports, a report on cluster analysis, a report on the development of agricultural cooperatives in other OECD countries, and a final report.

The authors would like to thank four former managers of Cebeco for their willingness to collaborate in this project and to share information: mr. J. Prins (CEO 1986 – 1993), mr. C. Dickmann (CFO 1978 - 1999), mr. G. van den Berg jr. (member of the management board 1981 – 1996) and mr. H. de Boon (CEO 1993 - 2002). We also made grateful use of interviews conducted several years ago with mr. A. Sneep (Manager Strategy, interviewed in 2002) and mr. D.J. Veldhuizen, chairman of Rijnvallei feed cooperative, member of supervisory board from 1991 until 2008 (interviewed in 2004). We also thank mr. R. Rabbinge, former member of the supervisory board, for his comments on the draft report.

[1] In this report we will use the word 'Cebeco' as shorthand for the cooperative that started its life in 1899 as *Centraal Bureau uit het Nederlands Landbouw-Comité* (Central Bureau of the Dutch Agricultural Committee, a farmers organisation), was known for a long time as Centraal Bureau, then, after the 1973 merger, as Cebeco-Handelsraad, and ended its existence in 2010 as Koninklijke Cebeco Groep UA (Royal Cebeco Group).

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1. Introduction

1.1 Objective and research questions

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives", that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In addition to agricultural producer organisations and cooperatives, there is also an interest in associations of producer organisations, which are promoted in the fruit and vegetable sector and –if current policy proposals succeed – and in the milk sector.

This makes it interesting to study the experiences with second-tier cooperatives, and especially the – according to the literature – most complex type: the multi-product cooperative. In the framework of this project, several case studies have been carried out in this area, including studies on German cooperative BayWa and French cooperative Agrial. This report provides information on the rise and fall of the Dutch second-tier, multi-product cooperative Cebeco.

There are several topics that will be studied within this case study. First, the internationalization strategy of the cooperative. Often, second-tier cooperatives are providing the link the international markets for domestic farmers, either on the inputs side or on the marketing side. Thus, internationalization seems an important part of the growth strategies of second-tier cooperatives. However, internationalization often requires substantial investment capital, and the question is who will provide this capital. For the farmer-members of the first-tier cooperative, investments in the international activities of the second-tier cooperative may raise a number of vaguely defined property rights issues (Cook, 1995). In other words, farmers may be reluctant to provide, through their first-tier cooperative, the necessary equity capital.

A second research issue directly related to internationalization is the extent of diversification. Managers of the second-tier cooperatives may pursue international investment activities that are only slightly or indirectly related to farmer interests. Managers do this because they see opportunities other may not see (yet) or they consider diversification necessary as a risk reduction strategy. There are multiple examples of second tier cooperatives that have ventured (not always successfully) into new business activities that have few links with the members of the primary cooperatives (for examples from US and Canada, see Fulton and Hueth, 2009).

A third issue, also related to internationalization, is the interaction between the second-tier cooperative and its foreign farmer-suppliers and farmer-customers. The relationship between the second-tier cooperative and foreign farmers is likely to be similar to an IOF-farmer relationship. In other words, foreign farmers are not members and therefore have not control over the second-tier cooperative they are transacting with.

Some would say that domestic farmers also lack control over the second-tier cooperative, even when they are member of the local cooperatives that are members of the second-tier cooperative. This is the fourth research issue we will study. As the relationship between farmers and second-tier cooperative is only indirect, and as the first tier member cooperatives often have thousands of farmer members, individual farmers may have the perception that they do not have any control.

A fifth research issue refers to the sustainability of the second-tier cooperative. Soegaard (1994) argues that federative structures like second-tier cooperatives are inherently instable and will disappear over time. This raises the questions under what conditions the second-tier cooperative will disappear, what new structures will appear and what the effect will be of this transformation on farmer interests.

A sixth research issue relates to the role of policies and regulations. To what extent do regional, national, or European regulation and policies affect the strategic choices of second-tier cooperatives, in their home countries and in the host countries.

These research issues lead to the following research questions.

On internationalization
a) What are the main reasons for second-tier cooperatives to go international?
b) What are the main internationalization strategies that second-tier cooperatives follow?
c) What relationship do second-tier cooperatives establish with the foreign farmers they transact with.

On internal governance
d) What are the internal governance structures of the second-tier cooperatives?
e) What are the relationship between internal governance structure and the strategy choices made by the second-tier cooperatives?

On life cycle
f) What are the causes of the conversion or disappearance of second-tier cooperatives?

On policies and regulation
g) What regulations and policies have affected the (internationalization) strategies of second-tier cooperatives?

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

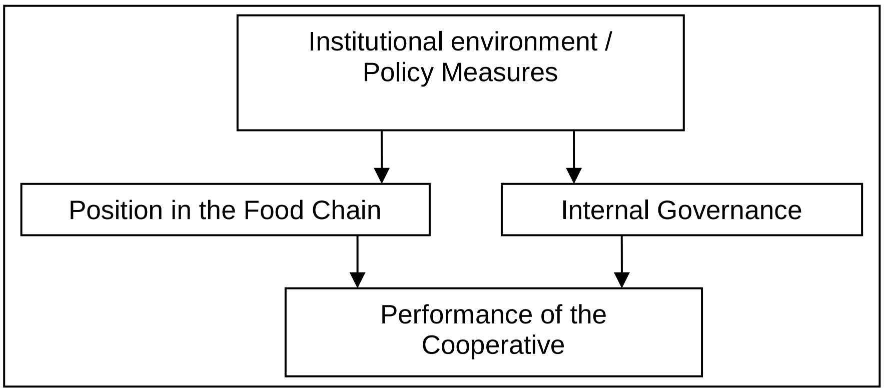

Figure 1. The core concepts of the study and their interrelatedness

1.3 Method of data collection

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

Additional information has been collected through personal interviews with various co-operative stakeholders. For this particular study, former managers and members of the supervisory board of Cebeco have been interviewed. We have concentrated on managers and supervisors from the period 1980 – 2000, the period just before Cebeco was dismantled. It is in this period that new strategies and structures were introduced. Most of these managers and supervisors are now retired from active professional life and were willing to contemplate with us in an open and honest manner what lessons the Cebeco case could have for second-tier cooperatives.

1.5 Structure of the report

Chapter 2 gives an overview of the relevant literature on second-tier cooperatives. Chapter 3 briefly describes the development of Cebeco over its 100 year existence, with focus on some important issues for our research questions. In chapter 4 we interpret these developments in terms of cooperative theory and our analytical scheme (as given in section 1.2), with the help of the results of the interviews. Chapter 5 gives our conclusions.

2. Federated Cooperatives

2.1 Introduction

Federated cooperatives can be found all around the world. Applying the subsidiary principle, local cooperatives set up a new joint cooperative for those activities that require a scale beyond the size of the local cooperative. Thus, the federated structure consists of first tier cooperatives that are members of a second tier cooperative.

In this chapter we will present a brief outline of the theory behind federated cooperatives (section 2.2), a brief history of the federated agricultural cooperatives in The Netherlands (section 2.3), and a specific theory that explains under which conditions a federated structure will not survive (section 2.4).

2.2 The rationale of federated cooperatives

A federation is an association of legally independent organisations, such as associations, foundations, cooperatives, and public limited companies. Federations are established for the purpose of collaboration among the member organisations. Collaboration can be internally oriented, for instance when the members of the federation agree on common rules for their individual activities. It can also be externally oriented, as the federation represents the common interests of the members vis-à-vis third parties. Federations are common in the (national) political arena, where they act as interest groups on behalf of their members.

A federated cooperative is both a federation and a cooperative. The membership of a federated cooperative consists of cooperatives.[2] Often local cooperatives set up a regional coop to carry out those economic activities that require a scale beyond the size of the local coop. The federated coop is more than a common interest group and more than an organisation that decides on common rules of action, it is also a joint company that carries out activities for the benefit of the member cooperatives. The activities of the federated cooperative are closely linked to the activities of the member cooperatives. For instance, in the Netherlands regional dairy unions used to take care of the marketing of the products of the local dairy cooperatives working in that particular region. According to the Danish cooperative expert Soegaard (1994), economies of scale are the main rationale for the existence of federated cooperatives:

> "To the extent that the duties of the central organization are economic, the formation of a federation is fundamentally attributable to economies of scale pertaining to the functions performed by the central organization. In the absence of such scale economies there would be no need for member organizations to form a common central organization." (Soegaard, 1994: 107)

Soegaard uses the term 'economies of scale' in a broad definition, as it also includes bargaining power and economies of scope.[3]

[2] In the literature we find several terms for the same type of organisation: federative, federated, top, secondary, central and apex cooperative. In the Netherlands a federated cooperative is often called a central cooperative or a top cooperative.

[3] Economies of scope can be defined as benefitting from fixed investments beyond the range of activities or products the investment was originally made for. For instance, once investments in R&D have been made, such as in a laboratory, these assets and skills can be used for research into a much broader range of products than originally meant for.

The activities carried out by a federated cooperative are directly related to the activities carried out by the member cooperatives. Federated cooperatives exist for the joint processing and marketing of products delivered by the members, for the joint purchasing of raw materials for feed produced by the members, the joint manufacturing of products (e.g. farm inputs) to be distributed by the members, and the matching of liquidity surpluses and shortages of local credit cooperatives.

A federated organisation is characterized by a structure where individual organisations (i.e., the members) are associated in a central organisation, while the member organisations remain independent. In essence, all cooperatives can be called federated organisations as they are controlled and authorized by a group of autonomous members. The term federated cooperative is used for the second-tier organisation, that is, the cooperative of cooperatives.

In the agricultural sector we find many federated cooperatives. According to Soegaard (1994: 103), "the federative mode reproduces its own logic on a higher level". This means that farmers having positive experience with and a positive attitude towards cooperation and collective action, will use the federated model to collaborate with other cooperatives. This value system favouring the combination of collaborating in a federated organisation with maintaining independence for the member organisations has been called the federative ideology.

One may ask why first tier cooperatives do not merge instead of forming federated cooperatives. One answer relates to the activities by the federated coop: these are usually more narrow in scope than the activities of the member cooperatives themselves. In other words, the federated coop only takes on those activities that require a scale beyond the size of the member cooperatives, while all other activities continue to be organized in the member cooperatives. The other answer relates to the organisation of control by the members of the local coop. As there is a strong link between the economic activities of the members and the local coop, the members (e.g., farmers) want to maintain control over the local coop. When the local coop would merge with other local cooperatives, the control of an individual member is diluted.

2.3 Federated cooperatives in The Netherlands

The history of the federated cooperative is almost as old as the history of the primary cooperative. In The Netherlands, formal cooperatives started to appear after 1876, when legislation on cooperatives was enacted. The last decade of the 19th century showed a rapid growth in the number of cooperatives. This boom was caused by the farm crisis of the 1880s, which resulted in low prices for farm products and (therefore) increasing conflicts between farmers on the one hand and traders and processing firms on the other hand. Farmers looked for other ways to organize the purchase of farm inputs and the marketing and processing of farm products. The end of the 19th and the beginning of the 20th century was a period of substantial organisational innovation (Zanden, 1994).

Almost all cooperatives were established at the village level, but soon after their foundation, these local co-operatives found out that for certain activities and certain bargaining situations they needed a larger scale. For these particular tasks, they looked for collaboration with other local cooperatives and set up federated cooperatives. Thus, federated cooperatives were established for the joint purchasing of farm inputs, for joint marketing of dairy products, and the joint provision of rural credit. Also cooperatives in other sector of the agricultural economy set up federated structures.

For inputs, local supply cooperatives started to collaborate in regional cooperatives for joint purchasing of fertilizers, seeds and animal feed. Such a federated cooperative had a stronger bargaining position vis-à-vis the producer of farm inputs. Once a certain scale of operations was reached federated cooperatives often started supplementary services, such as quality control and own production of compound feed. The next step was that regional cooperatives formed national associations for joint activities that demanded an even larger scale, such as the import of foreign inputs. Over the years, five major federated supply cooperatives were established: Central Bureau, Handelsraad, CHV, Landbouwbelang, and the Central Purchasing Office of LTB. The Central Bureau (which changed its name to Cebeco in 1963) bought fertilizer and feed ingredients for the regional cooperatives in the northern and eastern parts of the country, which were predominantly Protestant. The other four federated supply cooperatives had a catholic background, had strong ties with catholic farmers' unions, and were mostly active in the southern part of The Netherlands.[4] By the early 1990s there were still three federative purchasing co-operatives left: Cebeco-Handelsraad[5] (with 50 member co-operatives), Cehave (with 22 members), and Landbouwbelang (with 50 members). In 1999, Cebeco-Handelsraad changed its name into Cebeco Group and still had 25 members. [6]

Many federative cooperatives existed in the dairy sector. For a large part of the 20th century butter was sold in foreign markets by special export associations established by the local dairy co-operatives. These federations were organized by province. As early as 1898 the Frisian Cooperative Dairy Export Board (Frico) was established in the province of Friesland, followed at the beginning of the 20th century by other federative co-operatives like the Cooperative Rennet and Colouring Factory (CSKF), the Co-operative Condensed Milk Factory (CCF) and the Co-operative Dairy Bank (Roosenschoon, 1950).[7]

In 1896 the first cooperative credit banks were established in The Netherlands. These banks soon found out that they needed a federated organisation to equalize their individual surpluses and shortages and to translate the (legal) requirements set by the Dutch Central Bank into rules for cooperative banks. In 1898 two federated cooperative banks were established, the Cooperative Central Raiffeisen Bank in Utrecht with members in the centre and the north of the country, and the Cooperative Central Farmers Credit Bank in Eindhoven with its members in the southern provinces. In 1972 these two banks merged into one federated cooperative, the Rabobank.[8] The Rabobank continues to be a federated cooperative, with local Rabobanks forming the membership of the federated cooperative Rabobank Nederland.

Over the last decades, several federated cooperatives have been transformed into primary cooperative or have been terminated. In 1996, with the merger of nine cooperative fresh produce auctions into the marketing cooperative The Greenery, the federated cooperative CBT was terminated. The main task of the CBT (Central Bureau of the Fruit and Vegetables Auctions) used to be the harmonization of the conditions under which auctioning took place, thus promoting the transparency of the market and improving price determination. In addition, CBT carried out the collective promotion of Dutch fresh produce. In 2000, two major supply cooperatives Cehave and Landbouwbelang transformed from a federated cooperative into a primary co-operative. Subsequently they merged, to form the then largest producer of compound feed in the Netherlands. In 2000/2001 the fruit and vegetables auction cooperative ZON was transformed from a federated into a primary cooperative.

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[4] The four catholic federated supply cooperatives even had set up a joint purchasing association (CIV, Centrale Inkoop Vereniging) to import foreign feed ingredients.

[5] In 1973 Cebeco, Handelsraad and LTB merged into Cebeco Handelsraad.

[6] The reduction in number of members was the result of mergers among the member cooperatives.

[7] Frico and CCF were integrated in the cooperative Friesland Coberco Dairy Foods. The Cooperative Dairy Bank was later transformed into Friesland Bank, a public limited company, and was acquired by Rabobank in 2012.

[8] The official Dutch name is *Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*

In the early 21st century, very few federated cooperatives still exist in the Netherlands. An exception is the Rabobank. Rabobank has also gone through major changes over the last decades. It has transformed from a rural credit provider into a so-called all finance bank. Through mergers among local banks, the number of member banks reduced from 789 in 1991 to 341 in 2003 and 140 in 2012.

2.4 Do federated cooperatives have a life cycle?

A federative organisation is created in order to realize the common interests of its members without sacrificing their basic autonomy. Member organisations cooperate where necessary in order to remain independent where possible. This accounts for the material interests underlying the federative ideology. While many federated organisations exist for lobbying politicians and civil servants, on behalf of their member organisations, the interest of cooperatives is much more economic. Federated cooperatives are firms themselves, set up to gain economies of scale or to benefit from stronger bargaining power.

Soegaard (1994) has argued that structural change is not only a matter of growth to exploit economies of scale, but also a matter of change in the distribution of interorganisational power. He has described developments among federated organisations in Denmark, which suggest that there is a strong tendency for the balance of power in federative organisations to tilt in favour of the initially strongest member(s) of the organisation. The strongest member(s) will use their power to force a restructuring towards a unitary organisation. Soegaard describes three options for going from a federated to a unitary organisation (see Figure 2): (1) the central organisation acquires (or merges with) the member organisations; (2) the largest member organisation takes over the central organisation; and (3) several large member organisations take over parts of the activities/assets of the central organisation, thus leading to several unitary organisations. The author concludes that due to the correlation between size and organisational power, federative organisations will be inherently unstable when political influence allows wide latitude in the distribution of the gains from cooperation in the federative organisation, and the functions performed by the federative organisation are so vital as to allow the central organisation or the dominant member(s) to use their organisational power as a lever of structural change.

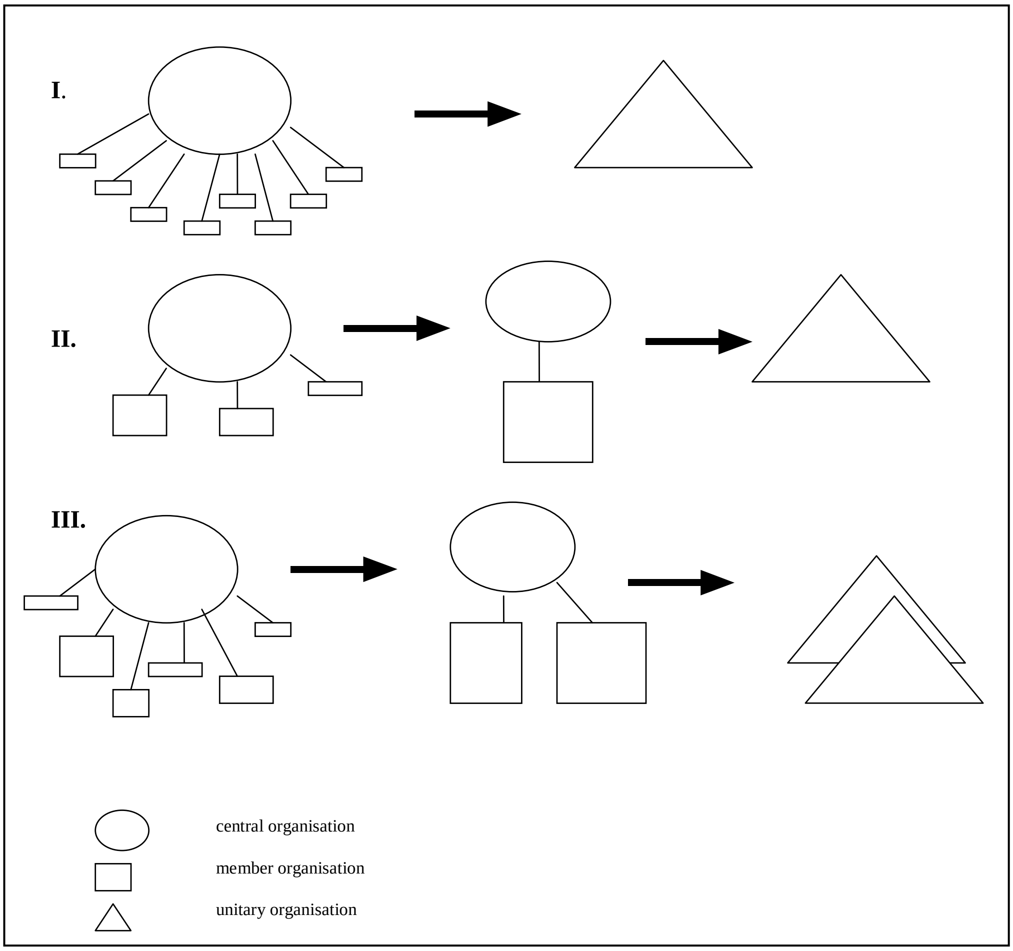

Figure 2. Restructuring processes of federated organisations (source: Soegaard, 1994)

The theory by Soegaard implies that when members of the federated organisation grow in size relatively to the central organisation, the power balance may tilt in favour of the former organisations. This does not necessarily lead to a problem, unless the heterogeneity among the members is increasing. In that case, dominant members will use their power to push for their individual interests and no longer decide in the interests of all members.

3. Cebeco Group

3.1 Introduction

In 1999 Cebeco Group celebrated its centennial with a book titled "*A powerful link in Dutch agri- and horticulture – a history of Cebeco-Handelsraad 1899-1999*". Within a few years that title could be interpreted ironically: the cooperative disintegrated and ceased to exist. In this chapter we describe some relevant aspects of the history of Cebeco (it's logo is in Figure 3), based on the following sources: two historic studies (Boer, 1976, and Veldman et al., 1999), the interviews, Cebeco annual reports, and other Cebeco publications.

Figure 3. Cebeco logo

3.2 How it started

Cebeco's life started at the end of the 19th century, mainly as a result of the development of what was called 'scientific agriculture', with the production and use of chemical fertilizers. Justus von Liebig's insight that plants use anorganic inputs like salts or potassium led to the introduction of fertilizer and solved the issue of lack of manure. The problem, however, that farmers encountered was asymmetric information about the quality of the fertilizers. Cheating by traders by blending with inferior products was a common practice. Laboratory analysis hardly existed, and was certainly unaffordable by farmers buying small quantities from local traders.

It was against this background of low bargaining power and risk of being cheated upon that farmers, in the second half of the 19th century, started to organise joint purchasing of fertilizers and other inputs, first informally with neighbours or in associations, and later, after the 1976 Cooperative law was enacted, in farmer-owned cooperatives. The very first cooperative in The Netherlands was established in Aardenburg (Province of Zeeland) and was named *Welbegrepen Eigenbelang* (Well-understood Self Interest).

Cooperatives soon dictated local trade, often by organising buying auctions in which bids from merchants were solicited and compared. At the same time cooperative credit unions or banks started to emerge as cooperative purchasing of inputs had reduced farmer access to short term credit from the local tradesmen.

The large merchants and importers of fertilizer (who had originally supplied the local traders and were now supplying the cooperatives) felt themselves so much under pressure that at the end of 1898 fourteen of them organised themselves in a so-called potassium-cartel. It was their answer to being sandwiched between the local cooperatives (supported by the state laboratories and experimental stations) on one side and the German Strassfurter Potassium-Syndicate of the miners on the other side.

The cartel was not successful. The farmer organisation *Nederlandsch Landbouw-Comité* (Dutch Agricultural Committee), in collaboration with the Nederlandsche Heidemaatschappij (that turned large areas of waste land into farm land, using large amounts of fertilizers) started a Central Bureau to trade directly with the Strassfurter Syndicate. From day one the trade volume in fertilizers was large.

The Central Bureau was designed as a trading house, an economic activity without the social objectives that most farmer associations had. In the 1920s, following the German tradition of Raiffeisen cooperatives that were often two-layer cooperative organisations, it was decided to establish a direct link with the local / regional buying and selling cooperatives. Central Bureau became a cooperative, with the local/regional cooperatives as their members. An important discussion at that time, and re-appearing frequently in later decades, was about whether member cooperatives were obliged to purchase from Central Bureau or could also purchase from competing suppliers. Members always maintained their right to purchase their feed ingredients from other suppliers.

Trading in cereals started during World War I, when the Dutch government organised the market and gave a prominent role to Central Bureau. Until then the loosely organised cooperative did not dare to enter this volatile market, given the price risks involved. This first step into diversification was followed by entering trade in raw materials for compound feed, a trade originally not allowed by the government due to risks of tampering and cheating.

A third new product line was the sales of seeds, that Cebeco started after World War I, originally on request of German seed cooperatives. This department got a boost in 1930 when the Dutch Heidemij ordered grass and clover seeds for the newly reclaimed polder Wieringermeer. Once an established seed trader, Central Bureau started its own breeding company in 1938. This was a first major financial investment in an activity other than trading.

3.3 Growth

The three decades after World War II were a period of continuous growth for Dutch agriculture, and therefore also for Cebeco. Particularly the growth of intensive livestock production, such as pork and poultry, but also of dairy farming, lead to tremendous growth in trade of feed ingredients. The motorisation and mechanisation contributed to the growth of the department for machinery, that started just before the war. Trading in energy (originally coal) and crop protection chemicals also started just before WWII and gained in importance in the 1950s and 1960s. Even farm buildings became an activity of Cebeco, as local construction companies had not enough knowledge to introduce new types of barns for pigs, poultry or dairy cows.

In 1964 Cebeco became involved in the meat industry through Coveco, a cooperative with seven slaughterhouses and several meat traders (after earlier trials at the end of the 1930s when farmers wanted to challenge the unpopular export-oriented slaughterhouses, but that came to an end in the war when the Nazi's seized the Jewish-owned export-oriented slaughterhouses). Cebeco also became active in the poultry industry, that pioneered so-called integration-contracts from breeding to slaughterhouses. Although very successful in the 1960's (with the leading brand Friki for frozen poultry), this became a financial burden in the 1970s due to overinvestment in a saturated European market. After 14 years of restructuring and loss-making it became profitable again. Cebeco remained involved (as it did in loss making Coveco) as the meat business was necessary for (and could be cross-subsidized by) the feed business. As a result of this 'hold-on' strategy Cebeco diversified from a supplier of farm inputs to also a meat processor.

Another example of Cebeco's diversification was the participation in the potato processor Aviko that had started to produce French fries in 1962 and needed capital for expansion in 1970. At the end of the 1980s it brought in the sugar cooperative SuikerUnie (now Cosun) as a shareholder in a swap of vegetable and potato activities, to prevent competition between the two cooperatives, after Cebeco had decided to become involved in vegetables processing.

With all these activities (and many more) Cebeco became a large and diversified group. In 1965 it had stakes in 55 firms, in the 1990s in more than 100. In many cases the members of Cebeco where co-owners of the firms in which Cebeco participated. As Cebeco had earned quite some money over the years it had some risk capital to undertake these activities and the members where happy to stay with the simpler traditional buying and selling activities, leaving the more risky and knowledge intensive activities to Cebeco.

Veldman et al. (1999) characterised Cebeco in the 1960s and 1970s as a trading firm with both own departments and participations in other firms, all active in diverse areas like cereal trade, crop protection, farm equipment, pre-fab houses and recreation, research in feedstuffs, breeding of seeds etc. These firms were managed with a trading mentality and were give relatively much freedom of operate. Essential was also that Cebeco was a second-tier cooperative that took the agricultural sector interest as central *leit-motief*, not the direct interest of farmers, who were not members themselves (Veldman et al, 1999: 157). Cebeco was a indispensable part of the modernisation mission of Dutch agriculture.

3.4 The end of the growth era

In the 1980s, the period of four decades of continuous growth in Dutch agriculture came to a halt. It became clear to managers and board members that life would never be the same, neither for farmers nor for Cebeco. The changes can be summarized under the following four developments. First, the unprecedented growth since WWII, strongly supported by EU agricultural policies, had come to an end. New domestic and European regulations had lead to increasing production costs (e.g. due to environmental protection), while at the same time market protection and subsidies were reduced. Second, markets for agricultural products had become demand driven instead of supply driven. Changing consumer demands as well as increased international competition forced farmers and their cooperative to become more market and customer oriented. Third, while during many decades a strong cooperative culture in the Dutch agricultural sector had facilitated the establishment of and collaboration among cooperatives, since the 1980s cooperatives were no longer self-evident. Farmers became more critical towards their cooperatives, local cooperatives towards second-tier cooperatives, and managers towards their business units. Unprofitable business activities were no longer accepted on the basis of cooperative ideology; activities had to be profitable or divested.

Directly related to the changes in the market, were the structural changes taking place among the member cooperatives. While Cebeco was focussing on purchasing feed ingredients and other farming inputs, the actual compound feed manufacturing was done by the member cooperatives. Cebeco supported and facilitated these member cooperatives to become more professional by providing technical and managerial training. Cebeco also stimulated its members to gain economies of scale in feed production by mergers among local cooperatives. With the end of the growth era, restructuring of local cooperatives changed for a desirable goals into a necessary goal. The locals had to become more efficient, mainly by merging into larger cooperatives. As a result, the first tier cooperatives become much larger and became much more self-confident within the Cebeco family. Some even started to use their new economic power for pursuing individual interests instead of seeking joint interests.

3.5 Restructuring 1989 - 1992

The above described developments led to fundamental changes in the period 1989 - 1992, both in strategy and structure, particularly in the relationship Cebeco – member cooperatives. Cebeco decided to re-organize all its activities into participations, which would fall under three business units: Seed, Feed, and Food. In addition, the different departments of Cebeco, such as feed ingredients, crop protection and seeds, would be transformed into participations, and managed by Cebeco mainly on the basis of return on investments. As a result of this restructuring, Cebeco became a holding company, and the former departments with direct Cebeco control became subsidiaries with their own management. Non-performing companies (like the OK Energy branch) were closed or sold.

Many other companies were bought as a result of strategic reorientation. Already in the 1980s, Cebeco was making a major shift in its strategy, from mainly a trading company towards a food processing company. Expansion was sought in potato processing, vegetables processing and in meals for airline companies (Delta Daily Foods). Given the small domestic market in the Netherlands, Cebeco had to go international to achieve its growth ambitions. The key words became "value added". As no growth could be expected in inputs trading, and agricultural production became more market-driven, Cebeco decided that it had to invest in food processing, in enhancing marketing and in other activities that would add value to the farm product. Also diversification was pursued. For instance, the new member of the board of management, Herman de Boon, was appointed because of his experience in horticulture.

An important consequence of these changes was that the financial situation of Cebeco became problematic. To cope with the risks in the volatile cereal and feed ingredients trade Cebeco had an internal Fund for Price Differences that was more than 100 million guilders (50 million euro) in 1989, when it was abolished. As the majority of these funds were earned in the feed ingredients trade, members considered it as profits withheld. Abolishment of this fund forced Cebeco to direct its participations even more strictly on return-on-investment. In relation to its total balance sheet, however the fund was rather low, leaving Cebeco for 80% funded with loans instead of own capital. One of the interviewers stated that, while a solvency rate of 15 to 20% is normal for the trading company, for a food processing company is was very low. In food processing a solvency rate of 35% is more appropriate. While Cebeco made a strategic move to expand into food processing, requiring additional equity capital, members became more critical about the amount of equity capital held by Cebeco. This resulted in a tough dilemma for the Cebeco management, who needed profitable business activities in order to gain cash flow for further investments, while member cooperatives became more critical towards business activities that had little relationship with their own activities.

This dilemma was reinforced by the fact that most profitable business activities were in arable crops (mainly vegetable and grass seeds and potato processing), while the interests of the large members was mainly in feed.

As of 1989, member cooperatives obtained direct ownership of Cebeco participations. They gained 49% ownership share and were given positions on the supervisory boards of these subsidiaries. For example, Cebeco's department for trade in feed ingredients was reorganised into the subsidiary Cebeco Feed Trade, of which Cebeco held 51% of the shares and the nine feed producing member cooperatives held 49% of the shares. In 2002 the name of this subsidiary changed into Cefetra BV.

The board of directors of Cebeco had always consisted of representatives of farmer unions, and there was no direct representation of member cooperatives in the board. Now, the more powerful member cooperatives wanted to have a direct say in the strategies of Cebeco. The 1990 changes in the governance of Cebeco lead to the situation that members obtained direct positions in the Cebeco board of directors. The size of the board changed from seven to eleven, with the four largest member cooperatives each gaining a position on the board. These four all had their main interest in feed. The other seats were taken by at least three representatives of the smaller member cooperatives and two independent persons.

3.6 The 1990s

As said above, in the 1990s companies were clustered in the groups Seed, Feed and Food. While Feed was the core business of the large member cooperatives, Cebeco itself focussed on Seed and Food (particularly potato processing). The business units in the Seed and Food groups were mainly driven by return on investment requirements. This model of decentralised management made it difficult to implement the strategy of integrated chain management. This concept had become popular among agribusiness companies during the 1990s. While Cebeco headquarters was promoting this concept and was actively involved in research projects on this concept, they did not have the tools to force implementation, as all Cebeco participations focussed on their individual financial performance.

With a merger and acquisition process comparable to that of IOFs, companies were added to the Group. Some of them were agricultural companies abroad, that were not directly related to the Dutch farmer's products, like an Irish company selling agricultural products to overseas markets. The French fries company Aviko broadened its activities to the USA by starting up a factory in North Dakota, to challenge the industry leaders like Lamb-Weston and McCain in their home base.

During the 1990s, Cebeco was in constant demand for additional equity capital and several ways of obtaining additional equity capital were explored. In 1997 the National Investment Bank (NIB) invested 68 million euro in Cebeco. The NIB became a so-called capital member of Cebeco. The investment gave NIB a share in the control of the cooperative, amounting to 16% of all votes.[9] The type of investment was in cumulative preference shares, generating a yearly interest of 6.2% on the principal.

In 2000, Cebeco Group had a total turnover of 3.4 billion Euro (Table 1; see also Appendix 1 for financial figures on the period 1995 – 2006). The total turnover was divided over the different groups as follows: Feed (56% of turnover), Food (36%), Seed (7%). A fourth group of activities was called "Projects", generating 1% of earnings. Within the Seed division, companies were working on plant breeding and the production and marketing of seeds, bulbs and plantlets for the following crops: cereals, potatoes, maize, amenity and forage grasses, glasshouse and open ground vegetables, flower-bulbs, turnips, cut flower and perennial plants. The Seed group contained three subdivisions: agricultural seeds, horticultural seeds, and flower bulbs.[10]

The Feed group included the import and supply of feed ingredients for the production of compound feed by the member cooperatives, the supply of fertilizers, the hatching of eggs and the supply of chicks for laying farms, the supply and production of farm equipment, and the collection and marketing of grains and potatoes.

The companies within the Food division processed farm products into high quality food products and sold these products world wide. The Food group contained seven subdivisions:

[9] The decision rights that were allocated to NIB were conditional; they could only be used when Cebeco did not reach particular financial performance criteria.

[10] Until 2000, there was a fourth subdivision: seed potatoes. At the end of 1999 Cebeco sold its minority share in the seed potato cooperative Agrico.

meat products, poultry products, egg products, potato products, fruit and vegetables, ready-to-eat meals, and wholesale and export. The Food group consisted of activities that were of great financial importance to Cebeco, but had low interest for the member cooperatives (Veldman et al., 1999: 233).

The Projects division was only a small group, consisting of agricultural development activities in the former Soviet Union as well as in India and China. This division had been set up to explore international opportunities.

Table 1. Turnover of Cebeco, total and by division (million euro)

	1996	1997	1998	1999	2000
Seed	172	199	243	230	245 (7%)
Feed	1419	1542	1492	1650	1917 (56%)
Food	639	706	960	1125	1218 (36%)
Projects	7	7	13	11	44 (1%)
Total	2237	2454	2708	3016	3424 (100%)

Source: Cebeco Annual Reports

Halfway the 1980s, Cebeco had about 100 members. During the 1990s, a continuous process of mergers among regional cooperatives took place. The number of members reduced to 35 in 1994. At the end of the year 2000, Cebeco had 23 members: 22 regional cooperatives and one capital member. Some 40,000 farmers were members of the regional cooperatives.

In the second half of the 1990s, several developments lead to dissatisfaction among the members of Cebeco and to pressures for changing the decision-making structure to give members more influence on Cebeco strategy. One of the members listed in its 2001 Annual Report the reasons for changing the relationship between the member cooperatives and Cebeco Group (Rijnvallei, 2002):

- because of the growth of the member cooperatives, and the subsequent starting of business activities that Cebeco used to do, the role of Cebeco Group has become less important;
- the decision-making structures within the federative cooperative are outdated;
- the financial results of Cebeco have been below expectation for several years.

3.7 Major changes in 2000 and 2001

The member cooperatives wanted to strengthen their control over the Cebeco Group, improve the transparency of the decision-making structure, obtain more direct control, and strengthen the collaboration between member cooperatives and Cebeco business units. After intensive debate, the following changes in the bylaws of Cebeco Group were accepted at the May 2000 General Meeting, and applied by January 1, 2001:

1. to bring all activities of the Cebeco Group under one limited company, Cebeco Group B.V., with Royal Cebeco Group Cooperative as the only shareholder;
2. to strengthen the decision-making power of the General Assembly of member cooperatives over strategic issues;
3. to change the decision-making structure by creating a personal union between the board of directors of Royal Cebeco Group Cooperative and the board of commissioners of Cebeco Group B.V.;

4. to allocate the general reserves of Cebeco to participation shares of the member cooperatives, and to establish a direct link between number of votes and number of participation shares;
5. to introduce the opportunity for member cooperatives and (groups of) farmers to financially participate directly in specific chains, by issuing (by Cebeco Group) of chain-specific participation shares.

The year 2001 was a financial disaster for Cebeco. Early in the year commercial activities of the Cebeco business units and its member cooperatives were negatively influenced by the BSE-crisis as well as a major outbreak of Foot and Mouth Disease. In addition, the aftermath of 11 September had severe effects on some of the Cebeco subsidiaries, notably Delta Daily Food, a producer of airline meals. It was decided that this company would be sold or terminated. The problems at Delta Daily Food resulted in a net loss of 35 million Euro in 2001. Another business unit in the Food division, the manufacturer of potato products Aviko, incurred major losses in the United States. The American dream of Aviko had never turned into a profitable business. It was decided to close the American location (that had only been set up in 1995), which resulted in a net loss of 20 million Euro. Reorganisation of other activities and revaluing several assets resulted in an additional loss of 35 million Euro. Altogether, Cebeco Group incurred a net loss of 108 million Euro in 2001.

To effectuate the 2000 decisions to strengthen the relationship between member cooperatives and Cebeco business units, and speeded up by 2001 financial prospects, the October 2001 General Meeting decided that the members would take a majority participation in those subsidiaries responsible for purchasing feed ingredients, fertilizers, grains and crop protection products, with Cebeco Group maintaining a minority position. In November 2001, Cebeco Group sold its business unit Verbeek's Hatchery to two of its members cooperatives, Rijnvallei (70%) and ACM (30%). Rijnvallei acquired all control rights; ACM's share only held income rights. In December 2001, Cebeco Group reduced its share in Cefetra, the subsidiary purchasing and importing feed ingredients, from 51% to 25%. The 26% were transferred to nine feed producing member cooperative (that already held 49%).

The financial problems encountered in 2001 made clear that the financial reserves of the central cooperative were rapidly decreasing. The losses had resulted in a decrease in solvency rate from 36.4% in 2000 to 18.6% in 2001. This percentage, together with the need for additional loans, led to more scrutiny by the banks (mainly Rabobank) towards Cebeco decisions. At the end of 2001 it became clear to management and board of directors that a major strategic reorientation would be needed.

After extensive consultations throughout the organization, the January 2002 General Meeting decided to focus on the poultry and pork chains, and to divest all other activities.[11] In the poultry chain the main business units were Plukon Royale Group and Plusfood, both processing and marketing poultry meat. In the pork chain, Cebeco held a minority share (24%) in Dumeco BV. Also the majority share (51%) in trading company Kühne + Heitz was to be kept, because the participation was profitable and because this company was a major exporter of poultry meat.[12] This focus on strengthening the activities in the animal production sector fitted well with the core activities of the largest member cooperatives (mainly producers of compound feed). 80% of

[11] The size of the 2001 losses were as much a result of 2002 decision to focus on a limited number of meat activities, as they were a result of business failures. In the January General Meeting it was decided to divest many subsidiaries, including Aviko USA and Delta Daily Food, and to attribute all losses and impairments to the 2001 financial year.
[12] Kühne + Heitz was Euronext listed until 2005. In 2006 Cebeco sold its participation.

the combined activities of Cebeco Group and its member cooperatives were already in the animal products sector (i.e., feed and meat). [13]

As a result of the divestments, turnover of the Cebeco Group in 2002 was 1.2 billion Euro, against 3.9 billion Euro in 2001 (see Appendix 1). The net result of the cooperative was a profit of almost 40 million Euro, against a loss of 108 million Euro in 2001. The solvency rate was 42%, against 18 % for 2001. Most of the bank loans were paid off. While the cooperative held fewer assets, the financial results for 2002 were satisfactory. In 2003 further divestments took place.

The changes in the bylaws by January 1st, 2001, removed the maximum on the number of votes one member could hold. As of January 2003, member cooperative Agrifirm (the result of the merger between ACM and Cavo-Latuco, in 2002) held 38% of the votes, and member cooperative ABCTA (the result of the merger between ABC and CTA, in 2000) held 32% of the votes. With the combined 70%, these two member cooperative were dominating the decisions on the restructuring of Cebeco.

Although the General Assembly of the Cebeco Group had decided to focus on both the poultry and the pork chains, in the end only significant participation in the poultry chain remained. In the pork chain, Cebeco only had a minority share in the pork processor Dumeco. In April 2003 Dumeco was acquired by Sobel, a company fully owned by the farmers' union ZLTO. Dumeco was incorporated in the newly established company Best Agrifund, that was, at that time, 85% owned by ZLTO and 15% owned by the three cooperatives that were the former shareholders of Dumeco BV (Cehave-Landbouwbelang, Cebeco and Cooperative Dumeco). In 2004, Cebeco sold its 4% share in Best Agrifund, to the majority shareholder ZLTO.

3.8 Termination

The restructuring has ultimately resulted in the termination of the federated cooperative. While in 2002 the member cooperatives had decided to maintain the meat processing activities (mainly in poultry), over the years 2003 – 2010, all of the subsidiaries were eventually divested. Some subsidiaries were sold to the incumbent management, some to private equity companies, and some to the member cooperatives. In 2005, the shares held by investment bank NIB were acquired by Cebeco itself. The two largest subsidiaries, both in poultry processing, were sold in 2008 (Plusfood sold to the Brazilian food company Perdigão) and 2009 (Plukon Royale sold to Gilde Investments).

The formal termination of Cebeco Group can be placed on April 1st, 2010. On that date, Agrifirm, one of the major feed cooperatives in the Netherlands and long time member of Cebeco, acquired 100% ownership of what was left of Cebeco Group.

[13] In April 2002 Cebeco published, on its website, a document that described the strategic choices made in January 2002, and that explained the restructuring needed to effectuate the new strategy. The document was titled "De koers van Cebeco Groep. Focus op activiteiten in vleessector" (*The direction of Cebeco Group. Focus on activities in the meat sector*; our translation)

4. Interpretations

This chapter provides different interpretations and explanations for the downturn of Cebeco. The proposed explanations are based on the literature and the interviews held with several managers and members of the board of directors of Cebeco, directly involved in the last 20 years of Cebeco.

We start by taking our three building blocks: historical, cultural and sociological aspects, the position in the food chain and the internal governance. We then move to some specific 2nd tier issues as discussed in Chapter 2.

4.1 Historical, cultural and sociological aspects

The cooperatives that became involved in Cebeco clearly started their activities to solve market problems, especially of quality control and the lack of scale of farmers or local merchants to organize this control with laboratory analyses. There were enormous information asymmetry problems with uncertainty of product quality (as in Akerlof's market of the lemons). This even implied that some products like compound feed were not allowed to be traded.

Cebeco itself was established to create buying power and buy directly from the international market, especially the German potassium cartel, and thus bypassing import traders. Cebeco was designed as a trading house, with weak ties to the local cooperatives. It was founded by a farmers' organisation, that was at that time still close to the old gentlemen science movement: in the benevolent interest of agriculture but not in all aspects a fully bottom-up process.

While in the situation of CHV in the south of the Netherlands and of AVV in Belgium the founding farmers' union became the owner of the cooperative, in the case of Cebeco founding father KNLC decided to it to the local cooperatives. The motivation for that is not quite clear, but it is well known that many KNLC members has quite liberal attitudes, trading with private companies too, and were less involved in corporatist ideas and cooperative ideology than for instance the Catholic farmers' organisations that promoted the interest of many smallholders. The link to the local cooperatives was however relatively weak, especially in internal governance (see below).

Cultural and especially religious aspects played a role too in those early years. In many regions cooperatives were organised along the religion lines. Cebeco was protestant, CHV and Handelsraad were catholic. This division, however, was not a dogma. Some regions of the Netherlands were mixed in religion; one village was protestant and the neighbouring village was catholic. Thus, catholic farmers in for instance Friesland were allowed to trade with Cebeco-member CAF. The new reclaimed polders in Flevoland were another example of an a-dogmatic approach. However in some of the early mergers of local cooperatives, religion played a role in choosing merger partners, one of our interviewees explained. This supports the theoretical notion that trust is very important in a cooperative, and that religious ties do make a difference. It was only in the 1970s (with Rabobank as an early example) that mergers across religious lines became normal business and that Cebeco could merge with Handelsraad.

Cultural and sociological aspects could have played quite a role in the relations between central management and member cooperatives too, as Cebeco management culture changed over time from a trading desk mentality to an investment company approach. This issue comes back later in this chapter.

4.2 Position in the food chain

Cebeco started with activities where the market failed, mainly due to the fact that in markets the quality of the product was hard to guarantee and determine. After WW II this included markets like construction where the old local constructers could not deliver the innovations needed. These activities were mainly input activities. But with the quality control in compound feed and the investments in plant breeding, Cebeco started to invest. The compound feed itself also asked for investments, although that was later on left to the members, not to compete with them. Trading in machinery and supplying pre-fab buildings also asked for investments. So with these activities Cebeco moved from being a trading house to an agri-business company.

The second development was the movement to the markets for farmer's outputs, which increased the multi-product character of Cebeco. By buying cereals and pulses from arable farmers (mainly for the feed factories) Cebeco was already used to trading in farmer's outputs. Investments in these markets came with the problems of the Coveco-slaughterhouses. If feed cooperatives and livestock farmers want to stay in business, they need slaughterhouses. Traditionally these slaughterhouses are not very profitable: large fixed costs with price volatility and a saturated market is a recipe for thin margins and a restructuring sector.

In the poultry sector it was not a restructuring but an opportunity that moved Cebeco to investments in slaughtering: the concept of the integrated poultry chain, based on fast turnaround times (feeding in a period of 6 weeks from chick to broiler), optimal logistics, and marketing under a brand name (Friki brand).

With these developments Cebeco moved from a nearly single-product (fertilizer, seeds, feed) to a multi-product cooperative. It also moved from farmer's input markets to output-markets. It should also be noted that Cebeco became active in different sectors: livestock and arable farming (sometimes including (open air) horticulture). With fertilizer and seeds this was never an issue and feed was moved as cereals from arable farmers to compound feed for livestock farmers in quite transparent markets. Within the Cebeco-group there was also no obligation to trade with the cooperative: members could also do business with others (weak members).

Originally, specialisation in farming was rather low, around 1900 in many areas there was mixed farming, and even in specialised arable regions there were often beef operations (fed with waste products of sugar beets and potatoes), and horses were the power source. Membership heterogeneity was at farm level not an important issue. However that changed after the second world war with a strong specialisation process: farmers specialised in arable or dairy or pigs or poultry farms.

The biggest change in the position of the food chain however was due to the merging process among Cebeco's members. It moved the power from Cebeco to the members. That merging process was inevitable and even promoted by Cebeco. Referring to the theory in chapter 2, Cebeco went through a process were in the end the largest members took over the activities of the central organisation.

Membership heterogeneity was a determining factor. Several of our interviewees pointed out that a process like in the south of the Netherlands was seen as attractive, but not feasible for Cebeco. In the South CHV consolidated in the 1950's were its director Mathot merged the local cooperatives into the federated CHV. One of the strategies was to build warehouses ('depots') for a group of e.g. 10 villages and then asking (and sometimes forcing) the local villages to merge into CHV. Membership heterogeneity was much larger within the Cebeco group. Some of the members had large production facilities for compound feed, and sometimes saw Cebeco in Rotterdam as a competitor – a reason why Cebeco closed its facilities at the Rijnhaven in the

Rotterdam port. Some members had an ambition to grow themselves too, and followed a strategy of merging with other member cooperatives. With this process the power of the members increased, and in the end took over the federated organisation, as Soegaard (1994) predicts.

Before this end game was played, the position of Cebeco in the food chain moved from the direct markets for farmer's products further into the chain. The first experiences by Cebeco with branded fast moving consumer goods were essentially positive. The Friki brand for poultry meat was very successful in the 1960s and later the Aviko brand in French fries generated an important cash flow (as one of the interviewees explained). As Veldman et al. (1999) explained, Cebeco took the agricultural sector interest as central *leit-motief*, not only the direct interest of farmers.

Our interviewees all stressed the fact that integrated chain development, trying to grab some of the value added in the downstream parts of the chain and increase value added was a dominating view in Dutch agriculture at that time. This process was reinforced by the fact that milk and manure quota and set aside in the cereal policy marked the end of 40 years of growth, as well as by consumer demand for more luxury products. The chain strategy was strongly endorsed in a report in 1989 of a Committee installed by the Landbouwschap, named Committee Van der Stee, after its chairman, a former minister (Stee, 1989). One interviewee added that there was a certain 'herding' behaviour – nobody challenged the collective vision. Also IOFs like Nutreco started to build integrated fish and poultry chains, from feed to food.

It was in this period (1980s and especially 1990s) that Cebeco started to build food chains in the potato, poultry, eggs and vegetables markets, and even in the ready-to-eat meals. This was a learning by doing process. Internationalisation was part of it. And it asked for large investments. Another problem was the lack of knowledge at Cebeco headquarters on the developments and requirements of all the markets the Cebeco subsidiaries were participating in. This marketing knowledge was present in the subsidiaries themselves, but was not always shared (or only strategically shared) with Cebeco headquarters. This made it very difficult to make the best investment decisions for all its subsidiaries.

As described in chapter 3, in the end the member cooperatives did not support this strategy anymore. They were very critical about loss making investments or those with a drain of cash flow. Investments abroad and those downstream in the chain were quickly abandoned.

Although vertical coordination (in chains) was one of Cebeco's strategic goals, it turned out to be difficult to achieve this within the traditional two-layer structure of the federated cooperative. Improving vertical coordination means strengthening sequential interdependence. This type of interdependence is normally coordinated by plan, developed and implemented by central management. In the case of Cebeco, the management of the federated cooperative did not have sufficient control over the various units of the agrifood chain, to fully implement a tight vertical coordination strategy.

4.3 Internal governance

The internal governance of Cebeco as a second-tier, multi-product cooperative was by definition complex. The first issue was already discussed above: the fact that Cebeco was transferred by its founders in the farm organisation to the local cooperatives. It gives the impression that the ownership was rather weak.

Member cooperatives had a so-called weak transaction regime with Cebeco. According to the statutes, members were supposed to trade "usually" through the second-tier cooperative. This implied that members could also trade with other suppliers of feed and other inputs. At a certain moment the Frisian CAF in Leeuwarden, a large member, bought only 10% of its inputs via Cebeco. This was a source of tension as Cebeco pointed out in public that due to this buying policy CAF sold its members more expensive feed than other cooperatives.

A second aspect was that Cebeco over a long period of time could act relatively independent from its members. The membership consisted of many small cooperatives. Although Cebeco was a federated cooperative, until 1990 the members had no direct representation on the board of directors. The directors were appointed by farmer organisations. Even after 1990, the Cebeco chairman remained an independent person. From 1987 until May 2001 the board of directors was chaired by mr. D. Luteijn, a farmer with multiple board positions in farming organisations, public and semi-public organisations, political positions and also in the supervisory boards of several private organisations, among them the Rabobank. Luteijn was representing Dutch agriculture at large and the specific interests of one or several member cooperatives. While the large cooperatives had gained influence as of 1990, at the end of the 1990s they wanted more direct control over Cebeco decisions.

Another issue in the internal governance was membership heterogeneity, that had several aspects. The first one was the difference between small and large members. These members had different relationships with Cebeco. Particularly the large ones had their own feed production facilities. While the large members were mainly interested in the feed activities, the smaller members had more links with the profitable Cebeco activities in seed breeding and potato processing. In addition, the small members were more dependent on Cebeco. Some services, like juridical advise, were only provided to small cooperatives. Such activities were not a big deal, but in discussion on the structure of Cebeco they played sometimes a role in Cebeco siding with the small ones to fight off demands for restructuring by the bigger ones.

The second aspect of membership heterogeneity was the multi-product character, and especially the fact that farmers specialised and Cebeco was working for the livestock as well as the arable and horticulture sector. Several interviewees explained that Cebeco in Rotterdam was much more oriented on plant production, compared to the (large) members that had a focus on the livestock industry. One of our interviewees explicitly suggested that the decision to invest in the vegetable chain were influenced by the fact that a large part of the cash flow of Cebeco originated from Aviko. Also the background of the CEO and the chairman of the board, both in arable farming, could have played a role. It is not surprising that after 2000 the large members, with their interests mainly in the feed business, quickly sold Aviko to Cosun, the sugar beet cooperative.

Finance
The investment strategy of Cebeco required quite some capital, and that too had implications on the internal governance. Veldman et al. (1999) suggest that Cebeco had earned quite some money over the years (including the 1920s and 1930s) and that it had some risk capital to undertake these activities. However our interviewees all found this Fund for Price Differences not essential. It was small money seen the investments, and as a result Cebeco was badly financed. Its own capital was only 17% in the early 1990s.

This made it attractive to ask members to co-invest (which was also done to increase their commitment to the strategy). Especially around 1990 there were many discussions on financing the chain strategies of the cooperatives (see e.g. Poppe and van Dijk, 1992). Two interviewees remembered that Rabobank was sometimes critical about the strategy of Cebeco, particularly about the diversification strategy. Another pointed out that Luteijn used his links with the

Rabobank to study on alternative financial arrangements. In the end the NIB-bank became a 'capital member', supplying risk capital.

With this investment strategy and in managing its participations on return-on-investment, also the culture at Cebeco headquarters changed. Several interviewees saw a difference in culture between the departments with the buying desks (described by one as: "real cooperative people" and by another as "shuffling the paper of the forward orders of the members to the buying contract in the world market") and the managers of the participations, particularly those downstream in the food chain ("Unilever-style managers"). After 1990 the top managers of the second style replaced those of the first.

It has been suggested that this widened the gap between Cebeco in Rotterdam and many of the members. Entrepreneurship in Rotterdam versus more conservative cooperative management in the regions.

Another aspect of the management on return-on-investment was that the results of the investments became more transparent for the members. This raised discussions on strategy. Members accepted the strategy as long as an individual investment provided sufficient return-on-investment. By not netting out profits and losses in a portfolio approach and not tolerating any losses, the situation had to become problematic in the long run.

4.4 Discussions on structure and power struggles

The analysis given above suggests that there were no easy solutions on structure and strategy for Cebeco, due to its history, its culture and its membership heterogeneity. That must also have been the experience of the management of Cebeco. The historical descriptions are full of discussions on structure. That is also what our interviewees recall: endless discussions on structure and relations with the 1st tier cooperatives, the members. A few aspects of these discussions are remarkable and hold lessons.

The first one is that Cebeco was never able to make its benefits clear to the farmers, the members of the member-cooperatives. The results of Cebeco (that in trading were perhaps not even very easy calculable) were hided in the prices the farmers paid for their feed. Members could not or were not willing to explain how their 2nd tier cooperative contributed to low prices. Quite normal in management, they attributed successes to their management of the 1st tier cooperatives, failures to Cebeco or the world market.

Cebeco had also no access to farmers via the publications of the members. In the struggles that characterised the change of power from 2nd tier to 1st tier, the members refused to add a page on Cebeco to the publicity or extension publications they sent to the farmers. In the end Cebeco decided to create its own journal (Cebecoskoop).

In the endless structure discussions many alternatives were discussed. These included ideas of creating a direct line with the farmers and in the end even several options to merge with the (large) members. In a certain sense that happened – more as a take-over of the interesting parts than as a complete merger.

It is remarkable that all these discussions were held internally. Management consultants were hired for merger and acquisition processes or to restructure investments. Relative outsiders like the chairman of the National Cooperative Council played a positive role in solving the Coveco-restructuring. But the discussions on the structure were done internally. In a situation where persons knew each other well (many managers and board members of member-cooperatives were trained in an internal training institute), but where some of them were not on speaking terms. In the 1980s there were managers and board members of big members who stayed away from contacts with the directors of Cebeco, according to several interviewees – they disagreed so much that they did not want to see each other.

Over the years, the member cooperatives of Cebeco had become very differentiated in size and activities. Some of the members had become very large producers of compound feed. Others had remained small local cooperatives for collecting and marketing of arable products. As farming became more specialized, the regional cooperatives specialized as well. This diversity had made decision-making in the General Assembly rather laborious, resulting in postponing of necessary strategic choices and dissatisfaction among the large member cooperatives. One solution would have been a transformation of Cebeco from a federated cooperative into a primary cooperative. This was the plan in the late 1990s. A merger of the four largest member cooperatives, as proposed in 1999, would have brought such a transformation very close. However, because the bylaws of Cebeco at that time held a provision that a member could not hold more than 20% of the votes, the merger would not have brought the desired control by (some of) the member cooperatives over the federated cooperative. Another barrier to this integration of first-tier and second-tier cooperatives was the different interests among the largest member cooperatives. Some of the members pursued a very focussed strategy on feed, while others wanted to maintain a broad portfolio of activities (mainly because their farmer-members were in many different farming activities).

Over time the interests of the large regional cooperatives (mainly in feed) and those of Cebeco Group (very divers activities, major stake in the food industry) became increasingly asymmetric. Mergers among regional cooperatives resulted in a small number of rather powerful members (even without formal majority voting power, a small group of members can strongly influence group decision-making). Of the three restructuring models by Soegaard (see Figure 2), Cebeco was trying to follow number II, where the member organisations merge and then take over the central organisation. However, the eventual restructuring of Cebeco followed model number III: several member organisations acquired parts of the activities and assets of the central organisation. This development, eventually, resulted in the termination of the central organisation Cebeco.

4.5 Life cycle

In a case study like this, many developments are presented in chronological order, suggesting that no alternative path would have been possible. That at least makes the question relevant: could – with hindsight – other solutions have rescued Cebeco or saved the drama and the losses incurred by –in the end- the farmers? This question is even more relevant as several of the Cebeco subsidiaries, like Aviko and Plukon, remained profitable companies after disinvestment.

In analysing this case ourselves as well as in discussions with the interviewees we could not see a solution that would have kept Cebeco alive in the state it was at its centennial. It is easy to argue that things would have been different if Cebeco would not have invested in (international) companies downstream in the chain. Then, perhaps, Cebeco would have been merged with its members, as it was losing, over time, its main function. One could even go back to the start of Cebeco: history would perhaps have been different if it would have had stronger ties with the members and a different governance. A similar scenario seems to be realistic if the member heterogeneity would have been less, and the CHV solution of merging 1st tier cooperatives into Cebeco would have been applied.

Perhaps there would have been less power struggles and in the end drama and losses if at an earlier stage decision making would have been more harmonious, as we suggested at the end of the previous section. But that would then probably also have led to merging 1st and 2nd tier. A split of Cebeco into an arable and a livestock 2nd tier cooperative was not a solution either, due to the ties of Cebeco in its Rotterdam headquarters with the arable sector, including the Aviko cash cow.

One interviewee suggested that reorganising Cebeco into a small investment house for a much smaller number of profitable companies in the food chain, close to the farmer's products interest, might have been an option, in the 1980s. It is unclear if enough risk capital would have been available to do that.

Looking back all our interviewees see the 2nd tier cooperative as an institution with a limited life. In the end one has to conclude that there were in essence no alternatives. In line with the theory discussed in chapter 2, Cebeco had a function as long as the 1st tier cooperatives had an efficiency of scale problem. Once that problem was solved by mergers, the *raison d'etre* had disappeared. The weak ties, its rather independent governance structure (that made it possible to care for the long term) and the strategy of Dutch agriculture to move into the food chain gave Cebeco extra time and –at first sight- an alternative future. But it was living on borrowed time, doomed to failure. Many farmers and journalists did not understand this when the end game was played, shortly after Cebeco's centennial. They did not realise that the efficiency of scale argument had disappeared and that the power had shifted from the formerly mighty Cebeco to its largest members.

4.6 Policy measures / Regulation

For the purpose of this study it is necessary to reflect also on the role of public policy measures. It is clear that they hardly played any role in the rise and decline of Cebeco. A few policy measures played a role in the starting years: the government laboratories and research stations played an active role in helping Cebeco with testing fertilizers. Withdrawing the ban on trade in compound feed helped Cebeco to grow too, and the organisation of the cereal market in the first world war helped Cebeco to enter the cereals trade.

After WWII, Cebeco has benefitted from and has been instrumental in the growth of Dutch agriculture. Particular the establishment of the Common Agricultural Policy (CAP) of the European Community, as of 1957, has been very important for Dutch farmers. The protected European market gave great opportunities to expand production and to export to neighbouring countries. One particular element of the CAP has been extremely important for Cebeco. In the European cereals policy it was agreed that grain substitutes like tapioca and soybeans could be imported without levy. This led to the import of large quantities of these grain substitutes, to be included in compound feed for Dutch animal farming. Being close to the port of Rotterdam, and having good water transportation, Dutch agriculture has a geographically based competitive advantage compared it farmers in other European countries. This led to continuous growth of animal production (until the 1980s), supported by local feed cooperatives who produced compound fee and by Cebeco who was importing the compound feed ingredients.

In the 1980s the European policies on milk quota and set aside as well as the national environmental policy with manure quota (preluding the Nitrate directive) contributed to the idea that growth had come to an end and that realising value added in the chain was the strategy to pursue.

5. Conclusions

What can we learn from the Cebeco case? We provide the answer in two steps. First, in section 5.1 we answer the research questions posed in chapter 1. Second, we will discuss more generally the results of this case study, in light of the theoretical and empirical literature on the development and performance of federated cooperatives.

5.1 Answering the research questions

The first research question asked about the main rationale for second-tier cooperatives' expansion into international markets. Cebeco went international in the 1990s for two reasons. First, growth options in the Netherlands had become limited. Second, Cebeco adopted a strategy of seeking added value for farm products, which implied that it had to invest in food processing. For firms from a small country like the Netherlands, investing in food processing, with its substantial economies of scale and scope in production, R&D and marketing, usually implies making investments abroad.

The second research question deals with the type of internationalization strategies that second-tier cooperatives are following. Cebeco's international growth strategy included both foreign acquisitions and greenfield investments. Particularly the greenfield investments turned out to be rather risky.

The third research question asked about Cebeco's relationships with foreign farmers. As the Cebeco subsidiaries were managed like IOFs, the relationship with their supplying farmers were like any other IOF. The Cebeco subsidiaries were organized like IOFs because both Cebeco headquarters and the shareholding member cooperatives wanted to extract profit from these companies. Despite all claims about chain integration and the need be involved in every stage of the supply chain, the bottom line for Cebeco subsidiaries was that they had to be profitable.

The fourth research question asked about the internal governance of the second-tier cooperative. The internal governance had changed fundamentally over the period 1989 – 2001. Before 1989, the board of directors mainly consisted of representatives of farmer unions and independent experts. From 1989 onwards, the board was directly representing the member cooperatives. Due to mergers among the member cooperatives, the number of members rapidly decreased from more than 200 in 1985 to 22 in 2000. The main drivers for the change in internal governance structure were not only this decrease in the number of members, but also the increasing heterogeneity among members in terms of size and focus of operations. The members that had grown very large had specific interests and wanted to have more control over Cebeco.

here seems to be a clear relationship between the internal governance structure and the strategic choices made by Cebeco, the topic of the fifth research question. In the 1980s Cebeco encouraged member cooperatives to merge in order to increase their efficiency, which was needed because growth of Dutch agriculture came to an end. Once the member cooperatives became larger, they wanted more control over the strategies and activities of Cebeco. Although the large member cooperatives, which were mainly involved in supplies to livestock farming, did not oppose Cebeco making additional investments in the Seed and Food industries, they only accepted it under the condition that these investments would be profitable on their own.

Originally, member cooperatives had little control over the business units of Cebeco. With the internal restructuring at the early 1990s, member cooperatives became co-owners of the business-units-turned-into-subsidiaries. The members also took positions in the supervisory board of these subsidiaries, thus obtaining direct influence in decisions on strategy and dividend payment. This co-ownership structure made the whole internal governance of Cebeco rather complex.

The sixth research question asked about the life cycle of the second-tier cooperative: What are the causes of the conversion or disappearance of second-tier cooperatives? One of our interviewees answered that "Cebeco has done its job" (authors' translation from Dutch). That is, Cebeco had been very successful in supporting Dutch (animal) farming. When growth came to an end, the strategy of diversification into food processing was only half-heartedly supported by the member cooperatives. The large members, mainly interested in feed, were not willing to accept the risks that usually accompanies large scale international investment in the food industry.

As to the seventh and last research question, on the role of policies, we can conclude that national and European policies and regulations have only indirectly affected the (internationalization) strategies of Cebeco. While Cebeco has made good use of the trading opportunities that were left open under the Common Agricultural Policy of the EU, the new internationalization strategy was purely business driven. Only to the extent that changes in support policies forced Cebeco to change its strategy, we can say that policies have had an impact.

5.2 Key conclusions from the Cebeco case

The key functions of a federated cooperative determine their capital requirements. As Cebeco shifted from a national trading company into an international food processing company, it needed much more risk capital. It is well known from the literature on the growth of cooperatives that members are often reluctant (or unable) to provide the additional risk capital. A diversified growth strategy makes it even more difficult to attract additional capital, as banks and owners may not agree with diversified investments.

Federated cooperatives with a large number of members seem to have more freedom in their strategic choices than federated cooperatives with a small number of members. When the members have become large cooperatives themselves, they start questioning the strategic choices of the central cooperative, particularly in situations where the interests of the central cooperative and those of the large members are diverging. Large members are likely to use their economic power to pursue their individual interests. This process of divergence makes decision-making in the board of directors increasingly difficult.

A strategy of integrating business units that are primarily profit driven into tightly coordinated value chains is very difficult to implement, particularly when member cooperatives emphasize return on investment while the federated cooperative is pursuing more long term strategies. When the link between the commercial activities of the federated cooperative and the local activities of the member cooperatives becomes weaker, member cooperatives become more critical about the activities of the federated cooperative. While Cebeco had ambitious plans for investment in food processing, members were reluctant to invest in these activities; they saw Cebeco business units mainly as a cash cow.

The more heterogeneous the membership of a federated cooperative, the more difficult the decision-making on strategic (such as investment) choices. The federated cooperative may be able to deal with such heterogeneity as long as members are numerous and small, but it become a real problem when (some of) the members become much larger than others (as measured by ownership share or the volume of transaction with the federated cooperative).

One of the predictions from theory on federated organisations (Soegaard, 1994) is that when member organisations become large compared to the central organisation, the federative structure will disappear. This restructuring process can take different forms: (1) the central organisation acquires (or merges with) the member organisations; (2) the largest member organisation takes over the central organisation; or (3) several large member organisations take over parts of the activities/assets of the central organisation, thus leading to several unitary organisations. Cebeco tried to follow option (2), to obtain a merger between (several of) the first-tier and second-tier cooperatives. This turned out to be impossible because of incompatible visions of the largest member cooperatives. In the end, Cebeco followed option (3). Several member cooperatives became so large that they started to dominate the central organisation, and in the end took over some of the assets of the central organisation and divested those assets that did not fit their own strategy. As the largest member cooperatives had their main interest in the livestock industry, they acquired those Cebeco subsidiaries that were engaged in feed trade and meat processing, and they divested all other Cebeco participations.

If one lesson has to be drawn from this Cebeco case, than it is that federated structures have a life cycle. At a certain moment they are at the end of the cycle.

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Key Financial Figures Cebeco 1995 - 2006 (million euro)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Turnover	556	623	559	626	1261	3911	3423	3011	2709	2454	2241	2075
EBIT	11.4	17.0	15.9	4.7	29.0	24.7	48.9	51.7	41.2	35.7	40.9	58.9
Group result	32.3	12.7	13.8	3.6	45.2	-104.0	22.4	31,2	7.4	20.9	21.0	20.6
Depreciation	14.3	13.8	10.0	11.3	33.2	49.2	49.7	52.9	50.8	44.0	40.3	40.6
Cash flow	46.6	26.5	23.8	14.9	78.4	-54.6	72.1	84.1	58.2	64.9	61.3	61.2
Net result cooperative	31.4	12.3	12.1	1.4	39.7	-107.9	9.4	16.3	4.6	14.9	13.5	12.2
Investments	13.6	15.8	15.9	8.1	23.3	62.2	59.4	77.3	52.5	46.2	74.4	23.3
Members' equity	91.2	64.0	71.1	117.3	121.9	88.8	210.7	222.8	200.5	230.3	151.1	139.5
Group equity	91.5	70.9	83.7	129.8	136.5	146.0	355.5	314.9	277.4	302.5	219.5	209.4
Capital base	91.5	70.9	88.2	134.6	143.8	167.4	395.6	355.2	315.9	349.6	271.5	259.7
Total assets (balance sheet total)	246.5	243.4	205.6	288.0	342.0	898.7	1087.9	984.1	898.9	798.8	727.0	665.1
Group result as % of group equity	39.8	17.9	16.5	2.7	32.0	-29.2	7.1	11.2	2.5	9.5	4.5	4.7
Net profit as % of members' equity	40.5	19.2	17.0	1.2	37.6	-51.2	4.2	8.1	2.0	9.8	4.4	4.2
Capital base as % of total assets	37.1	29.1	42.9	46.7	42.1	18.6	36.4	36.1	35.1	43.8	17.0	17.7

Source: Cebeco Annual Reports