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Improved forms of business collaboration for primary producers operating within the UK food supply chain

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IMPROVED FORMS OF BUSINESS COLLABORATION FOR PRIMARY PRODUCERS OPERATING WITHIN THE UK FOOD SUPPLY CHAIN

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We must always change, renew, rejuvenate ourselves;

otherwise we harden.

Johann von Goethe (1749-1832)

ABSTRACT

An intense trauma in the UK farming industry was caused by the foot-and-mouth disease. The Policy Commission on the Future of Farming and Food, chaired by Sir Donald Curry CBE, diagnosed that farming was detached from the other sectors of the economy and was "serving nobody well". The final recommendations of this commission were focused on efficiency, adding value and diversification. Among the specific recommendations, there was an important emphasis on the need to increase collaboration and cooperation because it "is the best way for small farm business to get the benefits of being a large farm business" (Curry, 2002:34). UK experts in farmer collaboration such as, Parnell (1999a), and The Plunkett Foundation (1992) had previously made clear the need for bigger, better, more effective and efficient Farmer Controlled Businesses. English Farming and Food Partnerships (2004a), also, set the challenge to explore and evaluate new approaches to develop farmer controlled enterprises more imaginatively. Therefore, the main aim of this research was to identify new forms of collaboration between farmers, which might lead to gain greater scale and flexibility in farming operating in an increasingly global food chain. Using an inductive grounded theory approach comprising a series of Delphi iterative face to face interviews, three rounds of guided interviews were completed. These involved 55 experts in the field of business collaboration, selected using a purposive sampling approach. Interviewees included leading academics, government officials and advisors, senior managers and business proprietors of the most profitable and/or innovative UK-based collaborative ventures. The outcome of the research has been to develop three discreet but combinable models of collaboration. Each model requires different levels of commitment from its members and would suit different business situations. All the proposed models offer a business structure flexible enough to be easily adapted in response to changes in the market place, but they also offer the opportunity of combining into much bigger organisations with the potential to integrate small-scale businesses into networks of international companies. This research also reaffirms that the traditional cultural barriers and divisions between the different stages and participants of the food and farming industry were still present and hinder the development of a more competitive sector. Whilst there has been progress in the assimilation of the supply chain concept, most of the businesses involved did not see the other stages of the chain as their potential partners.

DECLARATION

The work within this thesis is based upon the author's independent study at the Royal Agricultural College, Cirencester, under the supervision of Prof. John C Alliston, Prof. David J Newton, and Prof. J.B. Dent OBE. The author is responsible for the research, the interpretation of the results, and the conclusions discussed within this thesis. All assistance and advice received from colleagues has been acknowledged.
The concept and ideas expressed within this thesis, which are not referenced to others are those of the author and not the Royal Agricultural College or Coventry University.

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1. INTRODUCTION

In August 2001 the Policy Commission on the Future of Farming and Food was appointed by the Government, and chaired by Sir Donald Curry CBE, to "advise the Government on how we can create a sustainable, competitive and diverse farming and food sector which contributes to a thriving and sustainable rural economy, advances environmental, economic, health and animal welfare goals, and is consistent with the Government's aims for Common Agricultural Policy (CAP) reform, enlargement of the EU and increased trade liberalization" (Policy Commission on the Future of Farming and Food, 2002:5).

The Commission was comprised of experienced people from the farming industry and related sectors, such as representatives from retailers, processors, academia, finance, and government. Their diagnosis indicated that farming was detached from the other sectors of the economy and was "serving nobody well". The final recommendations of this commission were centred around three main strategies: efficiency, adding value and diversification in order to be more competitive in the marketplace. Among the specific recommendations, there was an important emphasis on the need to increase collaboration and cooperation because it "is the best way for small farm business to get the benefits of being a large farm business" (Curry, 2002:34).

The need for strengthened collaboration within the food supply chain was identified as so important, that one of the immediate consequences of the recommendations was the creation of the English Farming and Food Partnerships (EFFP) in 2003. The mission of EFFP was to "strengthen the profitability, competitiveness and sustainability of England's farming, food and related farm-based industries" (EFFP, 2004a:3). The main aim of this new organisation would be the promotion of collaboration between farmers and their suppliers and customers.

The need for a radical change in the UK farming industry has been made quite clear since the Mid Term Review (MTR) of the Common Agricultural Policy. It was evident that, food and farming was a global business, and the people involved in the sector had to recognise the urgent need of adapting to the new economic environment. Experts in farmer collaboration such as, Parnell (1999a), and The Plunkett Foundation (1992) had previously made clear the need for bigger, better, more effective and efficient Farmer Controlled Businesses (FCBs). The EFFP, also, set the challenge to explore and evaluate new approaches to develop farmer controlled enterprises more imaginatively.

Initially, the efforts of the EFFP were concentrated on the factors which had been stopping the development of the cooperative sector or Farmers Controlled Business (FCBs) within the farming industry. Research published by EFFP at the beginning of 2004 showed that when non-collaborating farmers were asked why are they not involved in cooperation or collaboration, the most common answers were: lack of opportunity, loss of independence and not being convinced of the benefits of collaboration.

Alternatively, when FCBs were asked to identify the main barriers that they faced when trying to grow, the most common answer was farmers' independence. Furthermore, FCBs did not see lack of opportunity as an issue. Therefore, EFFP

(2004a:5) stated: “For the food chain to be efficient and effective a new collaborative mindset is needed involving all participants”.

The research team of the Royal Agricultural College agreed with the sponsors that the research should focus on a topic in which the outcomes could be used by practitioners to complement or to serve as inputs to the work which EFFP was doing throughout the country.

1.1 Aim and objectives

The main aim would be to identify new forms of collaboration between farmers, with the need to gain significantly greater scale and flexibility, in an increasingly global food chain.

The research objectives were:

1) To assess the effectiveness of the traditional models of cooperation[1].
2) To analyse best practice in collaborative models in UK and other countries to identify transferable elements.
3) To develop new models of cooperation within the food chain from which UK farmers could achieve greater competitiveness.

Owing to the nature of this project, the research used an inductive grounded theory approach comprising a series of Delphi iterative face-to-face interviews. Three rounds

[1] Effectiveness of models of cooperation is understood as the capability of organizations, structured following a particular model, of achieving the overall aim for which they were developed (i.e. in a marketing organization the overall aim would be to market members’ produce).

of guided interviews were completed. These involved 55 experts and practitioners in the field of business collaboration, selected by using a purposive sampling approach. Interviewees include leading academics, government officials, farm advisors and managers of profitable and/or innovative EU-based collaborative ventures.

The objective of the first round of interviews was to identify the parameters of best practice and develop a working hypothesis of how current cooperative models might be supported or challenged effectively. Respondents were encouraged to identify the ideal characteristics of any replacement business framework and responses were classified by the unanimity and emphasis placed upon a particular issue. Based on the outcomes of the interviews and the literature review, three different models of cooperation were developed in order to create a collaborative framework which could lower the traditional barriers for cooperation in the UK and be able to bring real potential for increased competitiveness in future economic environments. Different levels of commitment from its members were required by each model, which would be flexible enough to suit many different business situations.

Expert opinion was used to refine the frame factors and thus complete the second stage. The opinions sought were particularly from those who were dealing with farmers on a daily basis in order to gather a closer and more practical view. This phase has confirmed some of the initial questions, and reaffirmed previously identified cultural and behavioural issues.

Finally, the third round tested the commercial acceptability and feasibility of the proposed models with face-to-face interviews with key practitioners such as, large-scale farmers, retailers, processors, FCBs and service providers. The rounds of interviews have provided a clear understanding of the needs of the industry, and the outcomes of the research have demonstrated that the proposed models were suitable and feasible to address those needs.

One of the most important outcomes of the research project were the practicability of the proposed models; therefore, it is quite likely that some of the proposed business structures, or ideas incorporated into the models, might were applicable for the industry in the short term.

1.2 Structure of the thesis

The analysis of secondary materials to establish the case for change and the examination of new organizational forms and their potential for offering a vehicle for change is an essential element of the research. Therefore a significantly greater proportion of the thesis than would be usual, is devoted to the presentation of findings which stem from analysis of secondary sources and current best practice. The outcomes can be seen in chapters 1 to 6.

A description of the economic context of the food industry introduces the thesis and focuses on UK retailers, food manufacturers, farming and international trade. The economic context also includes a characterization of the FCB sector in the UK and how it compares with similar sectors in other European countries.

It is followed in chapter 3 by a brief history of the development of cooperatives and the evolution of the definition of what is considered to be a traditional model of cooperation. The chapter ends with a section on the limitations of the traditional model of cooperation previously identified and studied by many academic writers.

Chapter 4 focuses on the variety of FCBs, and in particular, on the many different ways in which they could be classified. It also contains a detailed description of the New Generation Cooperative model, and the possible reasons why it had been so widely adopted in the United States of America.

The different legal frameworks available for UK farmers when deciding to set up a FCB are examined in chapter 5. This chapter also considers the advantages and disadvantages of the different options in addition to their limitations.

In preserving the notion of the availability of different options, chapter 6 concentrates on the evolution of companies' structures and how those models have been changing over the years to better suit prevalent economic conditions. The final sections reveal how the most innovative companies have been adapting its structures and businesses to combat future challenges.

Chapter 7 of the literature review focuses on the new and the future economic environment, and how it is going to demand a total different approach to the way that the food and farming industry in the UK would conduct business. This section emphasises the challenges ahead for any business in general, and for FCBs in particular.

The thesis continues with a description of the procedures selected for the research and the presentation of the results and the consequent analysis of the outcomes of the three rounds of interviews, following the order in which they were gathered.
Finally, the thesis ends with a discussion of the conclusions from the research, followed by some ideas for further research.

2. CONTEXT OF THE UK FOOD AND FARMING INDUSTRY

The importance of the economic context as a major factor affecting every day business decisions cannot be emphasised enough. Therefore, the most significant influences upon the UK food industry will be examined first in this chapter. This is followed by an analysis of the UK Farmer Controlled Business (FCB) sector.

2.1 The Food Industry

2.1.1 The economic environment: Consolidation.

The economic reality was evident; almost every sector of the UK's food industry has suffered from over-capacity and lack of investment. In addition to this, the supermarkets have cut the number of suppliers, and in this reduction process they only deal with the companies that are able to deliver both the required scale and quality standards (Key Note, 2004).

Consolidations of operations and increasing oligopoly and oligopsony market structures have increased in many sectors. Typical examples are (Corporate Watch, 2005):

Groceries – Tesco, Asda, Sainsbury, Safeway-Morrison

Chemicals/oils – Shell, Exon, GlaxoSmith Klein, ICI, Kodak, Astra-Zeneca, BP, Dupont, Basf and Bayer

Brewers – Interbrew, Scottish and Newcastle, Guiness, and Carlsberg Tetley

Fast food outlets – McDonalds, Burger king, KFC

2.1.2 Retailers: Global Power.

The Datamonitor's analysis of Global Agricultural Products for 2006 (a) has revealed that the market value grew in 2005 by 2.7%, reaching a value of £476 billions, forecasting an overall value for 2010 of approximate £541 billions. This analysis also has indicated that the market has been dominated by the big retailer groups in almost every developed market in the world (Table 2.1).

Table 2.1. Leading world companies for agricultural products

Leading Companies	**Products**	**Revenues**	**Main Markets**
Wal-Mart	Mass merchandising	£ 172,600 m	US, Latin America, Asia, Europe
Carrefour S.A	Groceries and consumer goods	£ 51,160 m	Europe, Latin America and Asia
Tesco PLC	Retailer	£ 41,989 m	Europe and Asia
Ahold	Food and beverage	£ 30,550 m	US, Europe, Latin America and Asia
Metro AG	Retailer	£ 38,290 m	Europe, Asia,
Costco wholesale	Warehouses	£ 29,627 m	US

Source: Datamonitor (2006a), modified

The European market for agricultural products reached a value of £155bn in 2005; while Asian-Pacific achieved £202bn and the US market £81.4bn (Datamonitor, 2006b). These three main markets are expected to grow towards 2010, and to attain a value of £177bn for Europe [2.7% compound annual growth rate (CAGR)], £235bn for Asia-Pacific (2.5% CAGR), and £89.1bn for the US (1.7% CAGR) [See table 2.2].

Table 2.2 Market value and market volume for agricultural products in Europe

	2005	2010	Compound annual growth 2001-2005	Compound annual growth 2005-2010
Market value	£155 bn	£ 177 bn	2.1 %	2.7 %
Market volume	768.6 million metric tonnes	821.2 million metric tonnes	0.4 %	1.3 %

Source: Datamonitor (2006b), adapted

The UK's agricultural product market has generated revenues of £17.3 billion in 2005, which has represented a compound annual growth rate of 3.2% between 2001 and 2005 (Datamonitor, 2006b). See Table 2.3 below for an European market segmentation.

Table 2.3 European market segmentation of agricultural products

Country	**% of market share**
France	17.20
Germany	15.8
Italy	12.3
UK	**11.3**
Rest of Europe	43.4

Source: Datamonitor (2006b), adapted

In comparison, the French and German markets grew with CAGRs between 0.5% and 1.6% during 2001 and 2005, to reach respective values of £26.5bn and 24.4bn in 2005 (Datamonitor, 2006c).

Table 2.4 shows the UK Grocery market shares for the 12 weeks ending on June 18th 2006, published by the National Farmers Union (2006).

Table 2.4 Selected Leading UK Grocery shares

Company	**Market Share (%)**
Tesco	31.4
Asda	16.5
Sainsbury's	16
Morrisons	11.3
Sommerfield	4.2
Waitrose	3.8
Aldi	2.5
Lidl	2.0

Iceland	1.6
Netto	0.7
Kwik Save	0.5
Total Coops	4.5
Others	5.0

Source: NFU (2006) based on Taylor Nelson Sofres (2006), adapted

With reference to the Institute of Grocery Distribution (IGD) (2005a), the UK grocery retail sector was one of the most concentrated in Europe. A measure of the market share of the three or five largest firms has shown that the top five grocery retailers passes 63%, and the top three firms 48% (these figures include all retailing formats. The figures in the above table, taken from Taylor Nelson Sofres exclude convenience retailing).

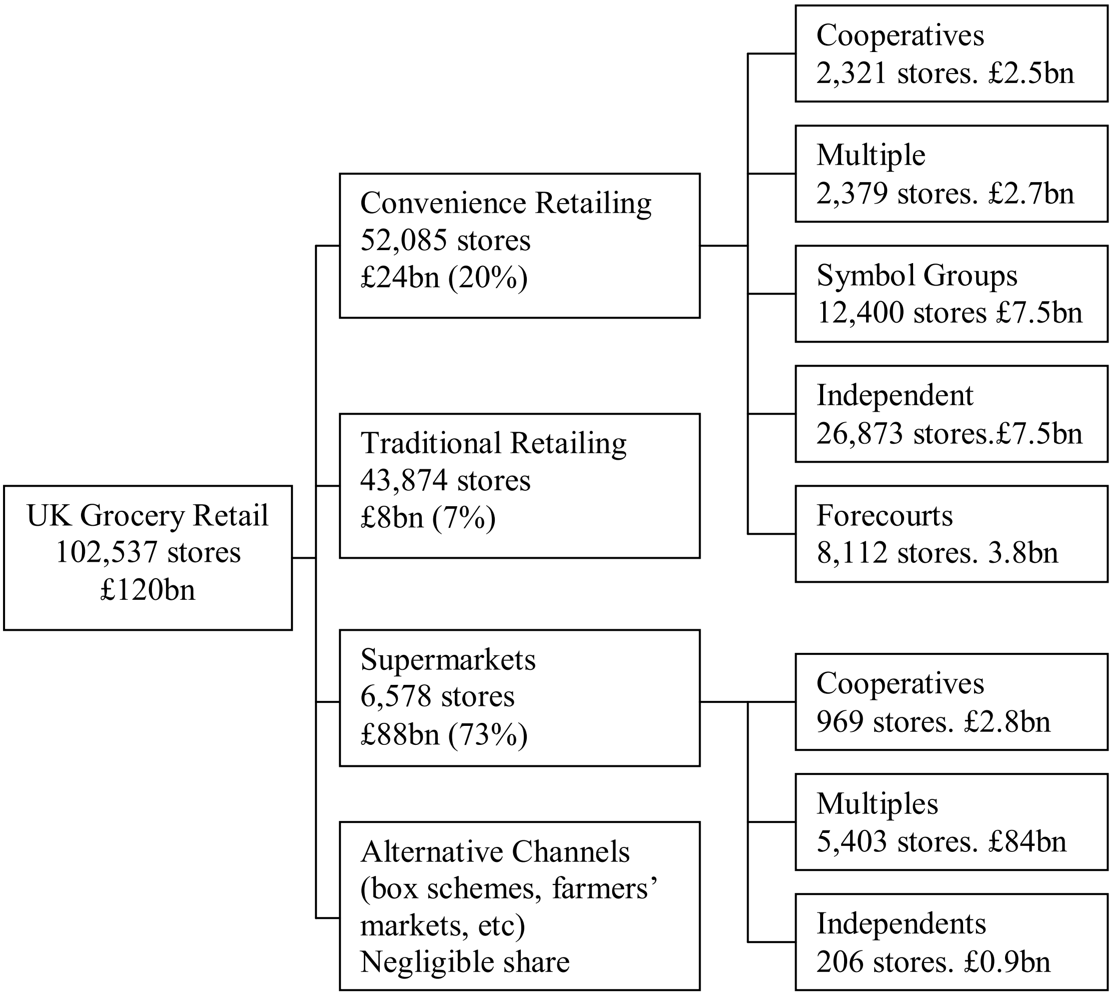
The average of the EU15[2] is 50% market share for the top 5 firms and 40% for the top 3 grocery retailers. Sweden, Denmark and Switzerland are the only countries with greater concentration than the UK in the Grocery retail sector.

Defra (2006a), highlighted the fact that in many countries of continental Europe, retailers have combined to form "buying groups", thereby the country concentration ratios have increased to values very similar to the UK.

The UK grocery market as a whole has revealed an increase of 4.2% from 2004 to 2005, reaching a value for retail sales of £120bn. The Figure 2.1 below illustrates a breakdown of this market from the statistics from IGD showing that supermarkets represent 73% of the UK grocery retail market, and that multiples are more than 95% of the supermarkets (Defra, 2006a).

[2] EU15 refers to: Belgium, France, Italy, Luxemburg, The Netherlands, Germany, Denmark, Ireland, UK, Greece, Spain, Portugal, Austria, Sweden, and Finland (http://europa.eu)

Figure 2.1: Breakdown of the UK grocery market in 2005 by value (£bn)



Source: Defra (2006b), modified

The IGD European grocery report (2005b) has indicated that another of the main characteristics of the UK grocery sector was its leadership in own-brand products. In 2004, the own-brand share of grocery market was almost 40% in the UK, second in Europe behind Switzerland.

Based on the IGD (2005a) report, Defra (2006a) also published the retail sales by category through UK Grocery outlets. See Table 2.5 below.

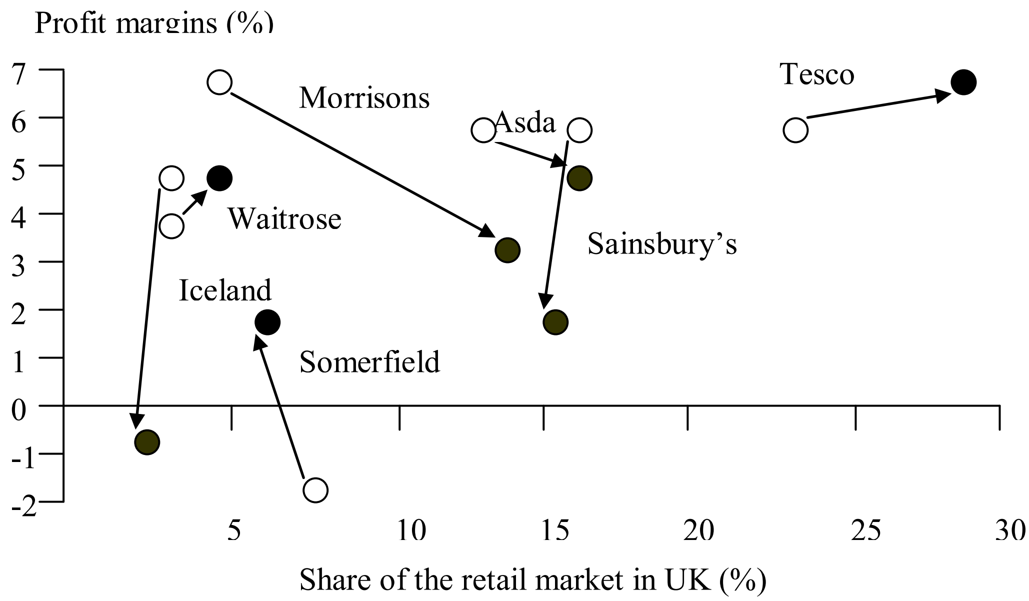
Table 2.5 UK Grocery retail sales by category

	Value	**%**
Food and drinks	£ 78 bn	65 %
Tobacco	£ 12 bn	10 %
Non-food grocery	£ 17 bn	14 %
Non-grocery	£ 12 bn	10 %
Total retail sales through UK Grocery outlets	£ 120 bn	100 %

Source: IGD Grocery retailing 2005a (modified, rounded figures)

Figure 2.2 has depicted the direction in which the profit margins and the market shares of major UK retailers have moved between 2000/01 and 2004/05, including non-grocery items (Defra, 2006a) (i.e. Morrisons in 2000/01 had a share of the market of 5% and profit margins of almost 7%. Over the next four years Morrisons increased its share of the market to 14%, decreasing its profit margins to 3.5%).

Figure 2.2 Profits margins and market shares for major UK retailers



Source: IGD (2005a) adapted

The UK grocery retailers' margins have been normally smaller than for other UK retailers, as was confirmed by the data published by DTI in 2005, see table 2.6 (based in UK sales only) (Defra, 2006a).

Table 2.6 Selection of UK retailers

Company Name	Sales (£m)	Margin (%)
BHS	890	15.5
Next	2,516	14.7
Boots	5,325	10.3
Marks & Spencer	8,302	9.9
Wm Morrison	4,944	6.2
Tesco	30,814	5.9
Sainsbury's	17,141	3.8
Wal-Mart	13,326	3.6
Somerfield	4,521	0.9
Safeway (part of Morrison)	8,386	0.6

Source: DTI Added value scoreboard 2005, in Defra (2006a), modified

2.1.3 Food and Drink Manufactory Industry

This process of increased concentration in the UK is coupled with a relentless increase in corporate size. For example, the top eight UK food manufacturers (Table 2.7) turnover more than a £1bn annually. This tendency has been more noticeable in companies operating in commodities sectors where the increase in operational efficiency is essential (Key Note, 2004).

Table 2.7 UK Food Manufacturers (year end 2002).

Company.	Turnover (£m)	Food-only Turnover (£m)
ABF PLC	4,545.0	4,043.0
Tate & Lyle PLC	3,944.0	3,492.0
Nestle Holdings (UK) PLC	2,027.8	1,774.3
RHM Group One Ltd	1,734.9	1,734.9
Northen Foods PLC	1,459.2	1,459.2
Uniq PLC	1,374.0	1,374.0
Dairy Crest Group PLC	1,286.3	1.286.3
Grampian Country Food Group	1,205.5	1,205.5

Source: Key Note (2004), modified

The number of firms in the Food and Drink Manufacturers (FDM) sector has fallen from 8,807 to 7,269 between 1998 and 2003, thus reflecting a consolidating trend. The regulatory bodies have been looking into this matter and many consolidation attempts have been investigated by the Competition Commission (Defra, 2006b):

Robert Wiseman Dairies / Scottish Milk Dairies (2005) (cancelled)

Napier Brown Food plc / James Budgett Sugars Ltd (2005) (permitted)

Arla Foods / Express dairies (2003) (permitted)

Cargill incorporated and Cerestar SA (2002) (permitted)

Keynote (2006) predicted that it is likely that many companies will merge or collapse over the next five years because the supermarkets' pressure on suppliers is quite intensive, and the supply base remains very fragmented.

The importance of economic scale to be profitable in UK manufacturers of food products and beverage during 2004/2005 has been highlighted by Keynote (2006), showing that companies with bigger turnovers, have higher pre-tax profits and pre-tax profits margins. Between 2003 and 2005, the number of companies VAT-registered in the manufacture of food, beverage or tobacco products has decreased, with the exception of companies turning over more than £5 million. Among the factors contributing to this reduction is supermarket pressure to reduce the number of suppliers, in addition to vertical integration among larger food companies and the rationalisation of unprofitable business units (Keynote, 2006).

The turnover of UK Food and Drink Manufacturers (FDM) has increased by £4.2bn from 2003 to 2004, reaching £73.7bn according to the Office of National Statistics (ONS) Annual Business Inquiry (ABI). A more detailed examination into the FDM sector has revealed that the average firm turnover was £10.5 million in 2004. The largest firms are in the grain, oils and beverages sub-sectors. The FDM sector was the second largest sector of the food chain in 2004 with a Gross Value Added (GVA) of £21.3bn, behind the food and drink catering sector of £21.8bn, but bigger than the food and drink retailing sector of £20.1bn. The total GVA of the UK food chain was £70.6bn (Defra, 2006b).

The annual growth in gross value added for the FDM sector between 1998 and 2004 was 2.8%, whilst the food retailing sector grew by 3% and the catering sector by a remarkable 8.6% (Defra, 2006b).

The Grocer 150 Index 2005 (The Grocer, 2005) has shown that the average profit margin of UK food and drink manufacturers was 8%, while the top companies averaged 12%, they were ABS and Tate & Lyle. This index also indicated that the profitability of the sector has been stable in recent years, and also higher than in the 90s.

On examining at the longer-term profitability indicators of the sector, such as Return on Capital Employed (ROCE), they revealed that the FDM averaged 21.4% in 2004. These indicators were higher than those in the grocery retail sector and other manufacturing sectors. It was interesting to note that the leader company in the UK grocery retail market, TESCO, had in 2004 an operating profit margin of 5.1%, and a ROCE of 10.4% (Defra, 2006a, based on Tesco 2005).

The FDM sector has had the second faster growth behind the chemical & man-made fibres sub sector. The real output of the FDM sector has grown by 27% since 1978, whilst the growth of the whole manufacturing industry was 17%. However, both of these increases have been less than the overall increase in the general economy. Additionally, Defra (2006b) has pointed out that the demand for food and drinks was less sensitive to income changes than other sectors of the economy, also, it is less exposed to international competition and fluctuations of exchange rates and interest rates.

Defra (2006b) has highlighted the fact that the continuous growth of the FDM sector has followed falling employment from 1971 to 2004 at an average growth rate of –1.6%. Defra (2006b:14) also maintained that the main reasons for this fall were the limited growth in domestic consumption in combination with strong productivity growth, and it "can not be attributed to large scale substitution of overseas products for UK-manufactured products".

The FDM sector has been very successful in adapting to the changes in the economy. The growth in productivity has reflected the technological improvements which have been promoted by: the influence of multiple retailers, changing consumer trends, product innovation, increasing consolidation within FDM and an increasing exposure to the Single European Market (Defra, 2006b).

In order to measure the international competitiveness of the FDM sector, the IDG (2005a) took into consideration a number of factors:

-cost of raw materials and resources involved in production

-the productivity of turning those inputs into outputs

-the ability to identify markets and meet customer demands

-the broader macroeconomic and regulatory environment

-the exchange rate

-transports and distributions costs

Sector Skills Development Agency (2005) has stated that the FDM sector has increased its productivity in absolute terms, but also in relation to other European competitors, therefore, the FDM sector was seen as being more efficient than many of its competitors.

IGD (2005a) identified the benefits of the economy for companies located in the UK:

-a stable macroeconomic climate

-some of the most flexible labour market

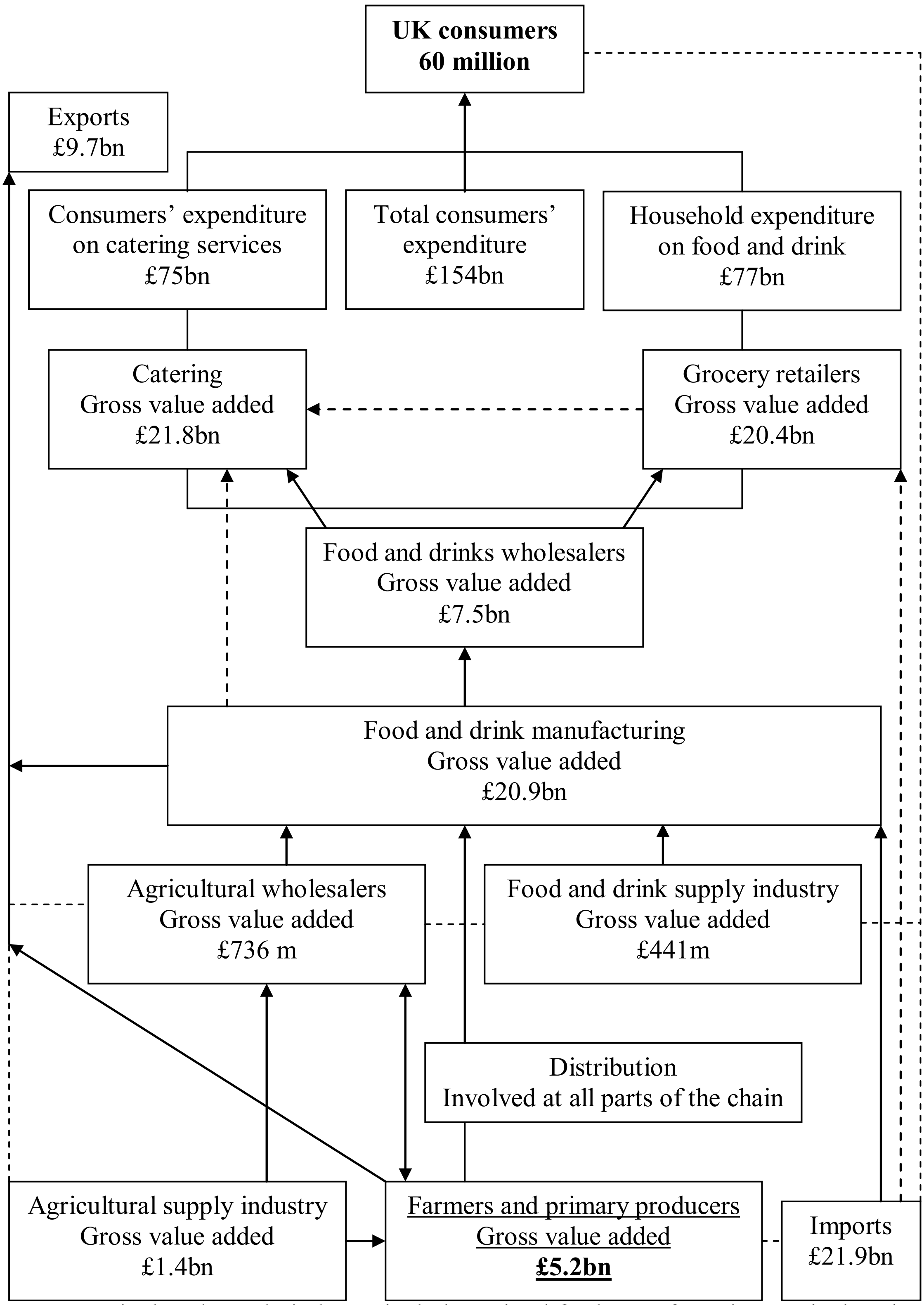
-a generally strong skill base

-well defined property rights

IGD has concluded that the UK FDM sector was very competitive in added-value products, especially in branded goods, whilst it was not as competitive for more basic-commodity products (Defra, 2006b). Furthermore, in respect to investments, Defra (2006b) has reported that Foreign Direct Investment (FDI) in food products has not revealed a clear tendency between 2000 and 2003, however, the reports emphasised that the net inward FDI was positive over this period, reflecting the attractiveness of the UK FDM sector to foreign companies.

2.1.4 The Farming Industry in the UK Food Chain

Figure 2.3 The UK Food Supply Chain



Notes: agricultural supply industry includes animal feed manufacturing, agricultural machinery and fertilisers and pesticides. Food and drink supply industry includes food processing machinery. Source: Defra Statistics (2006), verbatim.

The Defra's analysis of the food chain (Figure 2.3) reveals the relative contribution of added value at each stage of the food chain. The gross value added at farmer and primary producer levels totalled £5.2bn in 2005, whilst the total consumer expenditure was £154bn, reflecting the small contribution of farmers in the total gross value added. It was also interesting that the gross value added and total consumer expenditure in the Catering sector was virtually identical to that of the Grocery retailers, suggesting that the former sector could provide a more attractive alternative for suppliers than the more concentrated retail sector.

The total gross value added (GVA) of the UK agri-food sector was estimated to be at £78.2 billon in 2004. The GVA of the market sector has been represented at approximately 8.7%. The decoupling of the majority of subsidies from production has reduced the agricultural contribution to GVA by approximately 0.6%, and its share of the agri-food sector to 6.9% (National Statistics, 2006).

While the GVA of the national economy has grown by 35% since 1998, the GVA of the agri-food sector has grown by 27%. On the one hand, the non-residential catering was the sector that grew that the most, by 63.7%. On the other hand, agriculture had the smallest growth at only 2.4% (National Statistics, 2006).

In manufacturing and retailing 80% of the total GVA comes from large firms (more than 250 employees) whilst in agriculture 85 of GVA comes from large firms. In food and drink retailing, 82% of the GVA was done by the top 1% of enterprises' groups (a number of enterprises under common ownership). Furthermore, 77% of GVA accounted for the top 4% of enterprise groups in food and drink manufacturing (National Statistics, 2006).

2.1.4.1 Employment in the UK Food and Farming Industry

The major six grocery retailers in the UK employed 59% of all employees of the grocery retail sector (National Statistics, 2006).

When the number of employees in the agri-food sector is estimated, these appear to be 3.8 million people employed (including self-employed farmers), which represented 14% of the national employment. Agriculture provided employment for 14% of the of the agri-food sector (Defra, 2006a).

2.1.4.2 UK Farming Income

The total income from farming in 2005 is estimated to have fallen by 8.9% in current prices, or by 11% in real terms in comparison with 2004. In real terms, the total income has slipped below the levels of the late eighties, but is still 40% above the lowest point in 2000 (Defra, 2006a).

Defra (2006a) has revealed the tremendous variability on farms' economic results. Whilst half of the farms obtained an output smaller than the input, the other half performed well, with even some farms attaining and output over £150 per £100 spent on inputs.

The total payments paid to farmers (less levies) in 2005 had increased by 3% to reach £3 billions. The Single Farm Payment scheme is estimated to reach a total of £2.4 billion after deductions for modulation (Defra, 2006a).

2.1.4.3 Consumer expenditure

Key Note (2006) stated that the increase of household disposable income per capita between 2001 and 2004 was 11% despite the higher cost of borrowing, taxation and fuel.

Keynote (2006) highlighted that the inflation rate for the UK between 2001 and 2005 was not a good indication of prices in the food sector, because the fall in commodity foods such as meat and vegetables have compensated the increase that the grocery retailers have had in other sectors of their costs structure, such as energy.

Between 2001 and 2005, total household expenditure has increased by 19%, whilst the expenditure on food has increased by 11%, therefore, the proportion of total household expenditure on food has fallen from 7.26% in 2001 to 6.77% in 2005 (Keynote, 2006).

Since 1998, the increase in the food price index was 8.5%, whilst the increase for all other items was 21.7%. In real terms, the retail food prices were 11% lower in 2005 compared with those in 1998 (Defra, 2006a).

The farmers' share of a basket of food staples has decreased by 11% between 1988 and 2005. This decrease can be partly explained because of the increased value added to products beyond the farm gate, as well as to further regulation to ensure food safety. Another factor which has affected this indicator has been the strength of sterling against the Euro (Defra, 2006a).

2.1.4.4 International trade of the UK Food and Farming Industry

Defra (2006a) has shown how the trade gap in food, feed and drink has widened since 2000 by 11% to reach £12bn in 2004. Imports of food, feed and drinks have been valued at £21.9 billion in 2004 whilst exports were valued at £9.7 billion.

Exports have been influenced by the strength of Stirling, Bovine Spongiform Encephalopathy (BSE), lower commodity prices and foot and mouth, whilst imports increased by 7.1 % in real terms from 1995. When the effect of inflation has been excluded, exports increased by 22% and imports by 31% between 1981 and 2004, thereby widening the real trade deficit by 38% (Defra, 2006b).

2.1.4.5 Country of Origin

Most of the imports into the UK came from EU countries. From an examination of non-EU countries, in 2004, the UK imported food, feed and drinks at a value of £793millon from the USA and £591million came from Brazil. The main origins of imports of food, feed and drinks were France (£2.72bn), followed by the Netherlands (£2.69bn) and the Irish Republic. From outside the EU, USA was the main country of origin constituting 4% of the total (£0.79bn) (Defra, 2006b).

The food group with a major trade deficit was fruit and vegetables, with a difference between imports and exports of almost £4,6 billion. Over the years the tendency has been that the value of imports has grown most in the categories with the highest degree of processing (Defra, 2006a).

2.1.4.6 Trends in the UK Food Market

The forecast of real output of food and drink was that it would soon increase almost 10% from 2002 to 2012, which would represent an average growth rate of 0.9% per annum. This growth would not be enough to maintain the share of consumer expenditure, despite the trends for higher value products, food services and exports markets (Defra, 2006a).

In its forecast for the UK retail food market, Keynote (2006) expected a growth rate slightly above the rate of inflation over the next five years.

Business Insights (2006) has reported that the future of the food market would be shaped by several key trends:

- organic foods
- healthy and functional foods (daily dosing is a key growth area)
- ethnic foods.

Keynote (2006) has also confirmed these trends. In respect of healthy food, Keynote has emphasised the fact that the UK government has been very concerned about the increasing number of obese children.

Keynote (2006) also endorsed the trend for organic food, it reported that the sector was booming with sales reaching £1.3bn in 2005. Further to the growth in the use of farm shops, farmers' markets and box schemes, sales were also increasing among lower-income consumers (more than half now buy some organic product).

An illustration of the lack of spare time to prepare meals was increasing the sales of convenience foods. Keynote (2006) reported that the trend for convenience food had affected almost every product category. Nevertheless, there was also a consumer group searching and demanding tasty products, high quality options and new flavours.

Moreover, there was a tendency among major retailers to source an increasing number of products from around the world in order to provide year-around availability. However, the number of people concerned about the environmental impact of the transportation of food around the world has created a growing market for locally produced food (Keynote, 2006).

Asia–Pacific has been identified as the region with the most growth potential by global food leaders. The leading companies have expanded their business into emerging markets, such as Russia, China and India. Some companies have targeted these countries because they were cost-effective in terms of production. However, large manufacturers have developed research centres in order to adapt their products to local needs (Business Insights, 2006).

2.2 The Farmer Controlled Businesses (FCBs) Sector

2.2.1 Introduction

Following a characterization of the UK Food Industry, from farming to consumer expenditure, this section will focuses more on the topic of the thesis: FCBs in the UK. The data presented in this section has been gathered and published by the Plunkett Foundation and the English Farming and Food Partnerships. Both organisations have in total more than 300 English FCBs in their databases, which is a legitimate starting point to investigate this sector of the farming industry.

The Plunkett Foundation (2006) stated that in 2000/01 there were 566 cooperatives, 17 other FCBs, a Wool marketing board and a mutual insurance society, totalling 583 FCBs registered in the UK.

2.2.2 Consolidation

Consolidation through merger, acquisitions and investments in the food chain, played a significant part in the structural rearrangement of the FCB sector in 2004 and 2005. Some examples of this structural development are (EFFP, 2005a):

- Dairy Farmers of Britain acquired Associated Cooperative Creameries
- First Milk takes 15% of Wiseman Dairies
- The formation of Cheese Company (2nd largest cheese producer in the UK), a joint venture between Milk Link and Glambia Plc
- Grainfarmers closed a 1 million tonne deal with Rank Hovis

- Joint venture between Countrywide and Centaur Grain to combine grain marketing resources
- Meadow Quality's joint ventures with Wessex Quality Meat and Cornwall Quality Livestock Producers
- Formation of Tamar Feeds ltd. As a r esult of the joint venture between Countrywest Trading ltd and Cornwall Farmers ltd.

These agreements were not all mergers and acquisitions, but were instead, long term contracts and partnerships that have demonstrated that the industry was changing and adapting its resources to the challenges ahead.

2.2.3 Importance of the FCB sector in the UK

The total number of farmers taking part in collaborative ventures has increased since 2004. In 2006, almost one third of the total number of farmers has carried out some kind of business activity through FCBs (EFFP, 2006b).

EFFP (2006a) also revealed that dairy and cereal farmers were the most collaborative, followed by general cropping and horticulture, and farmers with mixed farms. EFFP (2006b) indicated that the decrease in the proportion of dairy farmers collaborating has been the consequence of natural adjustment and rationalization in the sector after a period of business consolidation. Traditionally, livestock farmers were less keen to cooperate, however, the above figure has revealed a co nsistent growth in collaboration among those farmers over the past three years. E FFP (2006a) also highlighted the trend to be less collaborative in the livestock sector, which is correlated with the findings (EFFP, 2004a) that small-scale farm business in the UK are less likely to form part of FCBs.

When an assessment of the total turnover of the FCB sector is made in comparison with the total agricultural output, it was evident that the importance of collaborative ventures had increased in recent years. Table 2.8 has shown that the turnover of the FCB sector has risen to £5.1 billion, representing 48% of the total agricultural output in 2004/05. The small decrease of the following year was a result of restructuring and rationalization of businesses after a year of significant growth.

Table 2.8 FCB turnover compared with total agricultural output (£bn)

	2003/04 £bn	2004/05 £bn	2005/06 £bn
Total output at market prices	10.5	10.6	10.4
Turnover top 30 FCBs	3.1	4.1	3.9
Turnover total FCB sector	4.1	5.1	4.9
Percentage %	39	48	47

Source: EFFP (2006a), verbatim

Table 2.8 also revealed an increase in importance of the top 30 FCBs in relation to the whole FCB sector. In 2004/05, the turnover of the top 30 FCBs represented 80% of the total turnover of the FCB sector.

Table 2.9 FCB sector turnover as a share of Gross Value of Agricultural Products

Sector	**2004**	**2005**
Dairy	70 %	92%
Grain/Oils	28 %	44%
Livestock	6 %	6 %
Potatoes/Vegetables/Horticulture	28 %	28%

Source: EFFP (2005b), verbatim

Table 2.9 has disclosed the market share, measured by turnover, of selected farming sectors as a proportion of the gross agricultural product. A similar trend may be discerned for the proportion of farmers collaborating per sector.

An analysis of table 2.11, table 2.9 and table 2.10, has demonstrated that the FCBs of the dairy sector have increased their share of the market, however, at the same time the proportion of farmers collaborating has decreased. Therefore, it could be assumed that the dairy farmers participating in FCBs had increased their scale of production.

Table 2.10 FCB turnover share by Agricultural Sector

Sector	Turnover (£m)			% of FCB sector turnover	
	2004	2005	Variation	2004	2005
Dairy	1332	1848	39 %	39 %	42 %
Grain/Oils	710	1116	57 %	21 %	25 %
Livestock	258	268	3 %	8 %	6%
Potatoes/veg/hort	530	569	7 %	16 %	13 %
Cross-sector	580	631	9 %	17 %	14 %
Miscellaneous	5	5	0 %	0 %	0 %

Source: EFFP (2005b), verbatim

Table 2.10 revealed that FCBs had increased their turnover in most sectors of the farming industry. The increase in the turnover of dairy FCBs between 2004 and 2005 was £516 million, whilst the increase in the grain/oils accounted for £406 million.

2.2.4 Comparison of UK FCBs with European FCBs

A comparison of the FCBs turnover with total agricultural output would evaluate the importance of the FCB sector. Table 2.11 has shown that doing such a comparison, the English FCB sector was quite small in relation with a selection of European and North American countries.

Table 2.11 FCBs turnover compared to agricultural output in Europe

Country	FCBs turnover compared to agricultural output
Sweden	260 %
Denmark	180 %
Netherlands	130 %
France	125 %
Germany	120 %
Canada	70 %
United Stated	65 %
England	30 %

Source: EFFP 2004a (adapted; rounded figures)

It was also interesting to note that in many countries the FCBs turnover was higher, and in some cases more than double the total agricultural output, thereby representing the significant importance of the FCB sector for the farm industry in Continental Europe.

Table 2.12 Turnover of the top 30 FCBs in England Compared with EU

	2004 (£ million)	2005 (£ million)
England	3,065	4,077
EU	63,585	65,636

Source:EFFP 2006b, adapted

Table 2.12 has compared the top 30 FCBs in England with the top 30 FCBs in Europe. Obviously, there was a s ignificant difference in turnover between both groups. Appendix 2.1 has detailed a list of the top 30 FCBs in Europe. From this table it could be stressed that the all of the top 30 had in 2005 a turnover above £1 billion. Furthermore, there were FCBs in almost every sector of the farming industry.

Appendix 2.2 has depicted detailed list of the top 30 FCBs in the USA. Despite the fact that the combined economic scale was not as large as the top 30 European FCBs, they were significantly larger than the English top 30 FCBs (see table 2.13 below). Any of the top three American FCBs had a bigger turnover that all of the English top 30 FCBs.

When the top 30 FCBs of England and USA were compared the dairy, grain/oils and farm inputs/supply sectors were the most collaborative in both countries.

EFFP (2006a) has emphasised the fact that the biggest FCB in the USA (CHS Inc) had a turnover more than the total English FCBs sector. Moreover, despite the large scale of the European FCBs, their economic growth between 2003 and 2005 was greater than the total aggregate turnover of English FCBs (See appendix 2.1 and table 2.8).

As mentioned earlier, the increase in the turnover of the dairy sector between 2004 and 2005 explained almost half of the increase of all top 30 FBCs in England (£ 4bn aprox). During this period, the three big dairy FCBs raised their turnover by £515 million. It was evident that the scale of the English FCBs was significantly smaller than the FCBs of other countries with a greater tradition of collaboration among farmers.

Table 2.13 Largest 30 FCBs in England by turnover, 2004 to 2006 (£million)

Name	2004	2005	2006	Change 2004-6	Sector
DFoB	436	594	609	40%	Dairy
Milk Link	392	651	574	46%	Dairy
First Milk	447	546	505	13%	Dairy
Grainfarmers	205	416	393	92%	Grain/Oil
G'Marketing	173	186	195	13%	Horticulture
Centaur	134	230	154	15%	Grain/Oil
Countrywide	122	142	151	24%	Inputs
Mole Valley	115	126	145	26%	Inputs
KG	94	107	120	28%	Horticulture
Worldwide Fruit	114	104	103	-10%	Horticulture
Wynnstay	85	103	101	19%	Inputs
Grain Co	58	86	78	34%	Grain/Oil
Branston Potatoes	43	43	75	74%	Horticulture
Thames Valley Cambac	56	70	70	25%	Meat
Fengrain	46	68	62	35%	Grain/Oil
ACT	48	57	59	23%	Inputs
Anlgia Farmers	45	53	59	31%	Inputs
Cornwall Farmers	54	57	59	9%	Inputs
Medow Quality	63	60	54	-14%	Meat
Framlingham Farmers	43	50	52	21%	Inputs
Woldmarsh Producers	43	50	50	16%	Inputs
OMSCo	33	36	44	33%	Dairy
Scotlean Pigs	55	47	38	-31%	Meat
Farmway	25	29	34	36%	Inputs
Long Clawson Dairy	31	31	34	10%	Dairy
Wessex Grain	23	25	31	35%	Grain/Oils
Orion Farming Group	22	26	27	23%	Inputs
Yorkshire FLM	25	25	27	8%	Meat
United Oilseeds	35	39	20	-46%	Inputs
Atlas Agriculture (new 2004)	n/a	20	20		Inputs
Total for top 30	**3,065**	**4,077**	**3,943**	**29%**	

Source: EFFP (2006a), verbatim

2.2.5 The FCB sector per type of activity

In order to describe the FCB sector in England, table 2.14 has depicted the different types of FCBs and their contribution to the total turnover for the sector.

Table 2.14 Share of the different types of FCBs

Function /type of FCB	% of the total numbers	% of the total turnover
Marketing	51	75.9
Requisites	22	18.7
Services	20	2
Others	7	3.7

Source: EFFP (2005b), verbatim

The majority of FCBs had marketing objectives, such as selling produce in the name of its members, or aggregate products to gain bargaining power, or to add value to a member's produce. Table 2.14 has revealed that this type of FCB had the largest turnover in comparison with other types.

Service FCBs had a smaller turnover owing to the nature of their business. This type only charged its members for a s ervice, and never acquired the ownership of any products or inputs.

Table 2.15 has depicted the turnover of the UK marketing of FCBs divided into each sector of production.

Table 2.15 Turnover of UK marketing FCBs for a selection of products

Sector	£ million
Milk	2545
Cereal & oilseeds	565
Vegetables	402
Pigs	349
Potatoes	205
Cattle	185
Top & soft fruit	140
Sheep	69

Source: Plunkett Foundation (2001), adapted

The dominance of the dairy sector was evident when only marketing FCBs were examined, whilst the small scale of the FCBs in the beef and sheep sector was apparent.

For more detailed information about the UK FCBs marketing turnover, value of products supplied by FCBs and their market share, see appendix 2.3, 2.4 and 2.5. For more detailed information about the size and relevance of FCBs in different sectors and products, see appendix 2.6 and 2.7.

2.2.6 Employment in English FCBs

The number of employees in FCBs between 1992 and 2000/01 has been depicted in table 2.16.

Table 2.16 Number of employees of FCBs, 1992-2002/01

Year	Number of employees (thousands)
1992	12.2
1993	12.1
1994	11.3
1995	11.3
1996/7	13.3
1998/9	13.6
2000/1	12.6

Source: Plunkett Foundation (2001), adapted

The relative stability of the numbers employed over the years is shown in the graph. In order to assess the importance of the FCB sector it would be useful to examine the employment information divided by regions. Possible 12,600 jobs do not look very many when compared with the whole economy, but it is thought important to stress the fact that, in many regions of the country, the largest employers were FCBs.

2.2.7 FCBs by Region

Table 2.17 has depicted the proportion of farmers which were members of FCBs and identified by different regions in England.

Table 2.17 Proportion (%) of farmers collaborating by Region

Region	2004	2005
North east	23	24
NW & Merseyside	26	23
Yorks & Humber	23	17
E Midlands	26	18
W Midlands	17	28
Eastern	30	42
SE & London	29	36
South West	34	31

Source: EFFP (2005b), modified

Despite there not being a clear trend towards any region in particular, it could be said that farmers from the South West and the Eastern parts of the country had a more positive attitude towards cooperation.

An examination into one of the most collaborative regions of England, the South West, the information below has revealed that the proportion of Marketing, Supply and Service groups against the total number of FCBs were similar to the rest of the country.

Number and % of FCBs in the SW by type (EFFP, 2005b)

Supply Groups – 27 (37.5 %)

Service Groups – 11 (15.3 %)

Marketing Groups – 34 (47.2 %)

Total SW – 72 (100 %)

For more information about the distribution of cooperatives, see appendix 2.8.

2.3 Summary

The UK food industry has been characterised by the concentration of the UK grocery retail market. In Europe, only Sweden, Denmark and Switzerland have a higher retail concentration. In 2005, the five largest firms in UK had a market share of 63%, however, the profitability of these major retailers was lower than other high street retailers.

The food manufacturers sector was also concentrated to the benefits of economies of scale because of the pressure from retailers to reduce their number of suppliers. UK food manufacturers were very competitive at European level, particularly, if added value products are examined.

The catering service has grown spectacularly over the past decade. As a business sector, it is seen as comparable with the grocery retailers. Socio-economic trends have shown that the catering sector would continue its growth in the future, and probably at a higher rate than the retail sector.

The size of the agricultural sector was insignificant and fragmented when compared with retailing, catering and manufacturing. Farmers may be viewed as economically small companies and their incomes have significantly decreased over the past twenty years. However, some farm businesses have been competitive and profitable, thus indicating potential for the farming industry.

It is expected that the UK economy will grow at a higher rate than the agri-food sector, therefore, consumers will continue spending a lower share of their income on food despite the increase in the value added to food products.

Despite an increase in the value of imported food as a proportion of international trade, the importance of the food sector in the UK would decline.

Forecasts have shown that the market volume for agricultural products would continue to grow and the market value would also grow at a higher rate, thus indicating a clear trend for more added value products.

There would be considerable potential for some sectors in the food and farming industry, particularly for those who would be able to deliver what consumers desired. An increasing number of consumers would be prepared to pay extra money for specific types of food, for example: organic, ethnic, convenient, healthy, that complied with their requirements.

The consolidation trend which has affected the rest of the food supply chain, has also made its impact on FCBs, with the result that some of the most important collaborative ventures had been enlarged. In addition to this, many partnerships, alliances and long-term contracts involving FCBs have been agreed recently, thereby reflecting in some ways the dynamism of the rest of the supply chain.

Over the past few years, there has been an increase in the number of farmers collaborating, either through marketing, requisites or services FCBs. There was also a trend for bigger farm businesses to be more likely to be part of collaborative ventures.

The English FCB sector was significantly small if compared with FCB sectors in Europe or America. Any of the top three FCBs in USA had a larger turnover than all of the top 30 FCBs in England.

Marketing FCBs were the most common, followed by requisites FCBs. Milk, cereal and fruit and vegetables were the most collaborative sectors of the farming industry in England.

Contribution to the research objectives: This chapter illustrated the significant changes that have occurred in the structure of the food industry, emphasising the need for more influential FCBs in the market place that could result in better returns for their members.

3. TRADITIONAL MODEL OF COOPERATION

The previous chapter focused on the description of the UK Food Industry and the FCB sector, it intended to provide a clear picture of the environment in which UK farmers competed. The purpose of this chapter is to clarify some of the terminology used in the sector and to examine the evolution of the cooperative model, as it has been the most popular way for producers to organise for more than one hundred years. Therefore, an outline of the history, followed by definitions of cooperatives and a description of the traditional model of cooperation characterised the main part of the chapter. A discussion of the limitations of the model completed the chapter.

3.1 History of cooperation

At the beginning of the 18th century, the free citizens of Europe had two new forms of participations in their free societies. Firstly, “voluntary associations”, were formed by groups of people who shared the same aim. These associations were democratic organizations whose primary objective was to have an active participation in society. Secondly, “business enterprises”, used to participate in business activities in a free economy. As a result of the combination of these two existing models, the cooperative model started to develop (Fairbairn, 2004).

It has been alleged that the first modern cooperative business was founded in the town of Rochdale in the north of England in 1844. The Rochdale Pioneers, who set up the basis for the cooperative movement, were a group of 28 artisans who worked in cotton mills and could not afford food and household goods. They put their resources together and started the first consumer cooperative with only four items: flour, oatmeal, sugar and butter. The pioneers wanted to share the profits with the shoppers who have contributed to the business, therefore, every customer became a member, a co-owner, and had the right to have a say in the business. At the beginning, the shop was open for only two nights a week, but the growth was so great that three months later the shop was opening for five times each week (International Cooperative Alliance, 2006a).

Following the success in Britain, colonists, who adapted and modified the model to suit their needs, exported the cooperative initiative into North America. The first official cooperatives in United States and Canada were consumer cooperatives founded by workers in the big cities, and were as such, an approximate imitation of the UK model. Cooperatives were the response to difficult economic situations, characterised by the industrialisation of the 1800s, and similar to any other organization, they were the result of a complex social process. The socio-economic environment has been changing in the past 150 years and so the cooperative movement has evolved. Through all these changes, cooperative models have always been a response to unwanted situations or factors which affected the lives of those involved (Fairbairn, 2004).

Despite that Britain saw the beginning of the cooperative movement; UK agricultural cooperatives are smaller than their European counterparts. The continental success could be the result of aggressive market policies and the willingness to challenge some aspects of the traditional cooperative model. In addition to this the failure of the Agricultural Wholesale Society in 1924 had a negative effect in the image of cooperatives (Rayner and Ennew, 1987).

From a different perspective, McPherson (1999) said that during the 1800s cooperatives were formed to take the advantage of the industrialization and urbanization of the society, as well as to create a form of protection from economic instability resulting in unemployment and health issues. It was a way to combine resources in order to protect themselves against the concentration of economic power of large corporations, which were seen as exercising detrimental control in local economies. During this period, a new economic order was flourishing as a result of railways and steamships, leading to innovative improvements in the manufacturing industry, in communications and in agriculture's productivity. Therefore, the cooperative movement offered a model in which unprotected individuals could unite their limited resources in order to have a bigger influence in the new economic environment (McPherson, 1999). A clear example of this was the work of Friedrich Raiffeisen, who developed in Germany the first cooperative lending bank in 1964 to help small farmers. Later Raiffeisen founded a regional cooperative bank, a national cooperative bank, and in 1877 he unified the entire system (first Credit union) (Encyclopedia, 2008), using an umbrella organisation/structure that allowed local autonomy whilst keeping control from higher levels (BRS, 2006).

It has been pointed out, that despite the fact that the original cooperatives were based in an urban environment; agricultural cooperatives were responsible for development in the new North America. These models were strongly supported by social and political movements, which were trying to introduce a power balance to society in the 19th century (Fairbairn, 2004). Cooperatives were formed to respond to social and economic restrains, with the objective of increasing the social security of their members (Van Dijk, 1999).

The cooperative movement in UK didn't receive much official support during the first half of the 20th century. The inter Wars period showed a d efensive legislative framework that was the result of the Government and the National Farmers Union preferences for compulsory marketing schemes. Only with the 1967Act the UK Government started to prepare for the entry into the European Community (EC) and the changes in the support mechanisms. The Common Agricultural Policy (CAP) has used producers' cooperatives and marketing organisations to transfer economic support into the farming community. During the 70s and 80s cereal organisations received most of the support, mainly to build storage and drying capacity. Thanks to these supports from the EC and the UK Government the cooperative movement significantly expanded until mid 80s. However, still remained a very small sector in comparison with the cooperative movement in continental Europe. (Rayner and Ennew, 1986).

3.2 Definition of a cooperative

The cooperative model has experimented quite dramatic changes in the last century, and in order to adapt the model to new situations the cooperative movement has reviewed its definition of a cooperative on three occasions. Furthermore, each country would interpret the term differently. Consequently, what may be considered a cooperative in one part of the world may not be accepted as such in another.

In 1995 the International Cooperative Alliance reviewed its definition and agreed that: "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations thorough a jointly-owned and democratically controlled enterprise" (International Cooperative Alliance, 2006b). However, in the United States the National Cooperative Business Association defined a coop in 2001 as a business "owned and democratically controlled by its members", and the Canadian Cooperative Association, also in 2001, defined a coop as a "business organization owned by the members who use their services". Moreover, the U.S. Department of Agriculture (USDA) defined a coop as an organization characterized by member ownership, member control, and member benefit. All these definitions have clearly emphasised the business component of the cooperatives, and the ownership and/or control of the organization by their members-users (Fairbairn, 2004).

According to Fairbairn (2004), the key factor was not the legal framework in which the organization was created, instead, the focus should be on the cooperative concept behind those definitions. In many instances, it become difficult to decide if a particular organization was a coop or not, therefore the centre of attention should be on the strategy of the organization, the purpose, the control structures and the relationships within a particular group of people.

3.2.1 Cooperative Values and Principles

The International Cooperative Alliance (1995) emphasised that what made a cooperative special was that it was an enterprises which placed people at the centre of its business and not capital. Coops, as enterprises, may be defined in terms of ownership, control and beneficiaries, but the principal difference was that the three aspects were controlled by user members.

As affirmed by the International Cooperative Alliance (1995), cooperatives are based on values of self-help, self responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believed in the ethical values of honesty, openness, social responsibility and caring for others.

The cooperative principles were guidelines by which cooperatives put their values into practice:

1st Principle: Voluntary and Open Membership

Cooperatives were voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Cooperatives were democratic organizations controlled by their members, who actively participated in setting out their policies and making decisions. Men and women who were serving as elected representatives were accountable to the membership. In primary cooperatives members had equal voting rights (one member one vote) and cooperatives at other levels were also organised in a d emocratic manner, but not strictly one member one vote.

3rd Principle: Member Economic Participation

Members contributed equitably to, and democratically controlled, the capital of their cooperative. At least part of the capital was usually the common property of the cooperative. Members usually received limited compensation, if any, on capital subscribed as a condition of membership. Members allocated surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion with their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives were autonomous, self-help organisations controlled by their members. If they entered into agreements with other organisations, including governments, or raised capital from external sources, they did so on terms which ensured democratic control by their members and maintained their cooperative autonomy.

5th Principle: Education, Training and Information

Education and training for their members, elected representatives, and employers were provided by cooperatives in order for the participants to contribute effectively to the development of the cooperative. The general public-particularly young people and opinion leaders have been informed about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives

Members are served most effectively and the cooperative movement strengthened by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Cooperatives have worked for the sustainable development of their communities through policies approved by their members.

The Cooperative's principles have been reviewed twice before, in 1937 and 1966, in order to adapt them to contemporary society. See appendix 3.1 for the two previous versions of Cooperative Principles, consistent with the International Cooperative Alliance.

Zeuli (2004) emphasised that a s et of principles first codified by the Rochdale Pioneers have been used as guidelines for the development of many different kind of cooperative business models, reflecting changes in society, agriculture and specially in the interest of its members. Zeuli (2004) quoted Emelianoff (1942), who said: "the diversity of coops is kaleidoscopic, and their variability is literally infinite".

3.3 Evolution of the Cooperative Model

In the twentieth century, the cooperative model has suffered dramatic changes in order to catch up with the reality of the new economic environment, particularly in the United States and some Northern European Countries. A reflection of these changes is in the USDA's (1995) definition of what constituted a coop: a coop is a user-owned and user controlled business that distributes benefits on the basis of use. It was evident that this definition was trying to reflect the increased flexibility required to embrace a wide range of organizations that even had different rules for their different types of business (Zeuli, 2004).

Zeuli (2004) argued that agricultural cooperatives have challenged the cooperative principles in order to be able to remain competitive in the market place and to attract large farmers, thus reinforcing the fact that the Rochdale and International Cooperative Alliance (ICA) principles were guidelines for cooperative structures and that the final decision rested on the people involved to choose which principle they wished to adhere to.

The development of the cooperative models was a response to a particular set of circumstances and the needs of specific groups of people. At the beginning, it was very important to be associated with specific communities. Then, came the period when coops played an important role as counter-power organizations to the concentration of monopolies. After that the cooperative movement improved its management and marketing techniques which resulted in a consolidation period in the second half of the twentieth century (Fairbairn, 2004).

At the beginning of the twentieth century, most of the farmers in North America were small and homogenous, therefore, the Rochdale principles of equitable treatment and open membership suited their requirements. Their objective was to obtain the maximum amount of product and capital possible by recruiting more members. Furthermore, the volume and quality of the products were quite similar amongst farmers, consequently, the Rochdale principles which focused on equitable treatment and ownership was a good feature to recruit more members. By the end of the 1900s, the situation started to change, the farming community was not homogenous any more, there were very large farms coexisting with modest farms; farmers had access to capital and the option to invest in other places. As a result, the equitable treatment and ownership was changed for a proportional policy in the New Generation Cooperatives in order to remain attractive to the most efficient farmers (Zeuli, 2004).

This new type of coop was, in general, a vertical integrated business and concentrated on one activity. It demanded greater investment and commitment from the farmer member because it was considerably more consumer and quality-orientated (Fairbairn, 2004).

In the near future, cooperatives may have to evolve into more flexible and efficient organizations which combine local knowledge and innovation with the benefits of economies of scale. The new economic environment required a change from the rigidity and compartmentalization of the industrial era towards a post-industrial and post-modern era where teams, innovation, knowledge and networks would provide the competitive edge required for the survival of cooperatives (Fairbairn, 2004).

3.4 Agricultural Cooperatives

In England, the Industrial & Provident Societies Act (I &P Act) has provided the main legislative framework for the registration of businesses formed by farmers as cooperatives, although, since the 1960s some have been registered under the Companies Act and have been accepted as being cooperative companies. Such farmer controlled businesses are seen to be “cooperatives”, either because they have been accepted by the Chief Registrar of Friendly Societies as being “bona fide” cooperative, or, have been accepted by Defra as being a cooperative of primary agricultural producers. Other business may still be “farmer controlled” but not cooperatives (Plunkett Foundation, 1992). See legal framework in chapter 5 for more information.

3.4.1 Types of Agricultural Cooperatives (Plunkett Foundation 1992, adapted)

- Requisite or Supply cooperatives: Mainly concerned with agricultural inputs supplies, including feed compounding, seed dressing and sometimes marketing the member's products.
- Marketing cooperatives: in general they market the member's produce, with or without transformation.
- Service Cooperatives: normally could undertake a variety of miscellaneous activities in order to support the farm business, eg. machinery rings, processing, et cetera.
- Marketing Boards: organization established by statute but placed under the control of primary agricultural producers.
- Other Farmer Controlled Businesses (FCBs): were considered FCBs despite the fact they were other public or private companies because, a) the business was in the majority ownership of active primary producers (at least 51% of all voting shares, and there was a limit upon the proportion of the shares which could be held by any single individual, farm business or group, and, b) the business publicly declared in its Annual Report and other official literature that it was, above all else, committed to serving its farmer-members in their capacity as primary agricultural producers by the provision of benefits to them.

3.4.2 The benefits of cooperation

The Center for cooperatives of the University of Wisconsin (1998) asserted that a cooperative was a tool used for a group of people to gain economic size in order to achieve goals that were only possible through joint effort. These goals could be:

- Achieving economic size
- Increasing bargaining power
- Sharing cost of new technology
- Adding value to agricultural products
- Gaining access to new markets
- Reducing risk associated with new enterprises
- Obtaining new services
- Purchasing in bulk to achieve lower prices
- Secure credit from financial institutions

In the opinion of the Plunkett Foundation (1992), UK farmers needed to collaborate in order to:

- Gain competitive advantages and marketing strength
- Compete having a market-led production systems
- Develop scale of operations and strong marketing positions
- Exploit export activities
- Control the farm input supply
- Access to services at a lower cost, e.g. storage, grading, agro-advice, R&D

The English Farming and Food Partnerships (2004a) stated that collaboration in the UK farming industry could deliver purchasing, marketing and processing economies:

- Purchasing collaboration: supply cooperatives sourcing seed, feed, fertilizer, machinery, agrochemicals, fuel and other consumables.
- Marketing collaboration: to gain economies of scale, recruit better staff, increase transport efficiencies, influence market price, process their products, develop brands.

In summary, it could be said that cooperatives, as with any other collaborative venture were tools/mechanisms used for companies or individuals to gain economic power in the market place by gathering resources and demands together in order to access economies of scale that would allow them to, a) gain bargaining power (buying or selling); b) reduce costs (production, processing, transport, finances, specialists, R&D, market research, branding et cetera); and, c) access to new markets and initiatives (environmental and community).

3.5 Cooperatives and Investor Owned Firms (IOF)

The most common question when the cooperative topic is addressed is concerning the relations between cooperatives and IOF, or in other words, their differences, similarities, advantages and disadvantages. However, this research was not designed to analyse this subject in depth, but it was considered sufficiently important to address this issue briefly.

3.5.1 Purposes of Cooperatives and Investor Owned Firms (IOF)

There have been so many different forms of cooperatives that was difficult to define them, but, in their most fundamental feature a cooperative was "people centred", and not "capital centred" which was a feature of an IOF (Parnell, 1999).

The English Farming and Food Partnerships (EFFP) (2005a) focused on the final aim of the organisation, recommending the formation of IOF as an investment opportunity where the objective was a return on capital in the longer term. However, if the aim was to maximise the return to members for products sold, a cooperative organisation could be a better option.

The Plunkett Foundation (1992) also based the main difference between a cooperative and IOF in its purpose. Whilst a cooperative's main aim was to provide direct benefits to the members by providing services, inputs, and return from their produce; an IOF would try to make a return on investment to shareholders.

Holmstrom (1999) has argued that the availability of exit options is what should determine the existence or not of cooperatives. If consumers and producers were not associated with a particular firm and their interests were adequately accounted by the market alternatives, there would be no need to give them voice one way or another. However, where there was no clear exit option, there would be a potential mission for cooperation.

3.5.2 Comparison between Cooperatives and Companies

O'Connor and Thomson (2001) emphasised the differences between a traditional coop and a company in respect to control, distribution and retention of earnings, equity, board of directors, shareholders, board membership and performance measurements (table 3.1).

Table 3.1 Comparison between cooperatives and companies

	Cooperative	Company
Control	One vote per member	Voting in proportion to stocks
Distributions of earnings	In proportion to patronage earnings, if distributed to members could be excluded from corporate taxes	In proportion to stock holdings earnings included in corporate taxes
Retention of earnings	Most earnings allocated to individual patrons. Earnings not allocated to individual patrons are included in corporate taxable income	Earnings not allocated to individual owners. Dividends paid out to shareholders based on profit or company performance for the year
Equity	No mechanism for individual equity appreciation	Owners share in equity appreciation through market
Board membership	Directors from similar backgrounds and relatively homogenous	Directors from a diverse range of backgrounds with specialist skills
Shareholders	Generally close to the board	Generally remote
Effectiveness of board	Measurements of effectiveness and appointment of appropriate individuals seen as more difficult	Generally easier for the board to take action and improve its performance by appointing the appropriate person
Performance measurement	Difficult to measure	Easier to measure

Source: O'Connor and Thomson (2001), modifed

The identity of the owner was the most important difference between cooperatives and IOFs. In IOFs, the investors were the owners whilst in cooperatives the members were formally in charge, either as producers or consumers (Holmstrom, 1999).

The Plunkett Foundation (1992) summarised the basic difference by asserting that the purpose of an IOF was to provide benefits for those investing in the business in the form of income, capital growth and speculative gains. However, the purpose of a cooperative or a FCB was to provide benefits to members in their capacity as farmers in the form of services, better prices, quality or access to markets.

3.5.3 Starting up

EFFP (2005) has identified the advantages and disadvantages of IOF and cooperatives when a group of producers faced a challenge to organise themselves and to form an organisation in order to supply local food.

	IOF	Cooperatives
Advantages	Simplicity	Producer own & control
	Transparency	Singularity of purpose
	Investment	Commitment
	Flexibility	Resilience
	Risk	Shorter chain
		Mutual tax status
Disadvantages	Conflict of Purpose	Tension: growers & processors
	Security/commitment of supply	Investment
	Governance and control	Risk

3.5.3.1 Advantages of IOF

One advantage consistent with the findings of the study, supplying an IOF with contractual agreements was: firstly easier to set up and run, secondly it was more transparent in setting prices, retaining and calculating profits, as well as in management procedures. Thirdly, an IOF could attract investors from outside the producer's group, and also it brought more flexibility because it could source from third party suppliers in order to obtain some products that the market required immediately. Finally, an IOF offered the opportunity to received extra rewards beyond the price of the supplied products, in the form of profitable shares with no extra risk.

Holmstrom (1999) has stated that the homogeneity among financial investors, given by their aligned interest of caring about money, could be and advantage of IOFs. Even in the case of different risks and time preferences, the tradability of the shares helped to alleviate such conflicts.

3.5.3.2 Disadvantages of IOF

Disadvantages included the constant pressure that IOFs were under to meet short-term objectives as well as being at risk to become targets for takeover, threatening the producers' position (Plunkett Foundation, 1992).

EFFP (2005a) has maintained that in an IOF there was an inherent risk that the pursuit for a r eturn on capital could conflict with the premise of a fair price to producers. Further, it could be argue that there was less security and commitment of supply because the supply contracts always had a time limit, therefore, during hard times the producers would be more tempted to look for alternative channels of commercialisation, when compared with members of a cooperative where the suppliers were the owners. Finally, an IOF could be owned and controlled by other than the producers/suppliers, and, as a result of this, the main aim of the firm might not be centred in the interest of the producers/suppliers.

Sykuta and Cook (2001) has characterised the relationship between the IOF and its suppliers as a zero-sum game, where any increase in the price to the suppliers was followed by a decrease in the residual income for investors. Also it could be said that the IOF did not really have an interest in the welfare of the suppliers, and because of the zero-sum nature of the relation, there was an inherent element of distrust between the parties. Therefore, there was an incentive to withhold private information which may have provided some advantage to the party, creating a greater information asymmetry. This relates particularly to market information, such as transparency when transferring prices or analysing specific market situations. In some cases the IOF could act as a black box that filters and alters information given to their suppliers, who may end up even further away from consumers.

3.5.3.3 Advantages of Coops

According to EFFP (2005a), the main advantage of a cooperative was that because it was producer owned and controlled, its interests remained central to the organization with all the stakeholders sharing in a common purpose. A greater scale of commitment that brought security of supply is expected, and because there were no external investors there was less pressure for short term results on the return on capital. Finally, if the cooperative limited the amount traded with third parties, it could apply for mutual tax status, thus enabling limited reserves to be retained free of tax.

In the opinion of Sykuta (2001) cooperatives had the additional advantage in that the suppliers (the producers) were involved also in the governance of the organization, as a result of which, there was less incentive for asymmetry of information (the coop should transmit back to the members more accurate information of what is happening in the market). The fact that the producers were engaged in both sides of the transaction, suggested a greater degree of trust in cooperatives-producers relationships than in IOF-supplier relationships.

In addition, the Plunkett Foundation (1992) maintained that the FCBs, thanks to their in-built trusteeship, were able to offer a wider range of benefits to the membership, such as the conservation of the environment and other factors of interest to the rural community.

3.5.3.4 Disadvantages of Coops

Amongst the disadvantages of cooperatives, EFFP (2005a) has identified that it was a complicated balance to keep the objectives aligned between a homogenous group of producers, and the fact that many business opportunities required other products and some kind of processing. Moreover, there was the potential for group conflict if a separation between investment and usage were allowed into the organisation.

In coops, the benefits to the members and their voting power, should derive from the usage of the coop, however, in IOF the benefits and the voting rights came proportional to investments in the business (Plunkett Foundation,1992).

In addition to this, Davis (1998) mentioned that one of the problems of cooperatives was that mass democracy could easily degenerate into bureaucracy.

The Plunkett Foundation (1992) alleged the main reasons why some coops have chosen to convert into IOF were: a) to secure a more stable equity capital base, b) increasing equity capital availability, c) attract, retain and motivate higher calibre management and d) change the culture of the business. However, those which had chosen to remain as coops argued that: a) it was possible to choose non-withdrawable shares, b) it was not clear yet if external capital would be attracted to coops that had converted into IOF, c) imaginative mechanism of reward could be put in place under the coop status, and d) a well developed coop culture could be more dynamic than a traditional IOF business culture.

3.6 Limitations of the cooperative model

The main limitations of the cooperative model have been clearly identified by Van Bekkum (2001) as: a) the collective treatment of the reserves, b) the non-allocation of the reserves, and c) the distribution of the net results. These characteristics of the traditional model of cooperatives developed many problems that, despite their interrelationship, could be classified as:

3.6.1 The Common Property Problem

This problem had its roots in the gap between the financing and distribution policies of coops. O'Connor and Thomson (2001) supported this opinion: they said that most of the limitations of the traditional model of cooperatives derived from the way in which their capital resources were treated as common property. The most popular way to obtain equity for the coop was through the retention of profits, therefore, a member who has used the coop for the longest period of time, or who had traded the maximum volume, was the member who had contributed more capital to the organization.

However, the dividends policy did not recognise these greater contributions, and also there were important restrictions if members wished to withdraw their investments. As a result, the so called free rider problem emerged, and could be classified as:

Internal free rider: because coops had open memberships, any new member did not need to make a significant contribution to the value of the assets of the coop. Also, any existing member who wished to leave the coop had very limited rights on the capital that had been accumulated through the use of the coop and was regarded as collective capital (Kyriakopoulus, 1999). Therefore, the internal free rider problem could act as a disincentive for members to invest in the coop.

External free rider: this problem was related to the practice of coops rewarding their members according to patronage and particularly through pricing policies. In cases where coops were leading a particular market, they were paying the highest price to their members, thereby forcing their competitors to equal that price in order to receive their supply. Therefore, non-members were obtaining the benefits of investments made by members to the coop (van Bekkum, 2001).

Other problems related to unallocated capital: a) the cooperative acted as a barrier between market signals and owners, b) members preferred to lend money to the coop and received the interest instead of investing in it, c) the considerable amount of money which could be accumulated over the years acted as an exit barrier, thus reducing the possibility of change due to its transaction specificity, and d) the cost of the unallocated capital was not clear, therefore, the prices of products transferred did not represent the resources used. However, unallocated capital had its advantages: a) it could be used as a reserve buffer, b) gave the management certain independence from the members by allowing rapid decisions to be taken, and c) it could be considered a cheaper capital in comparison with stock listed shares or external capital (van Bekkum, 2001).

3.6.2 Horizon problems

Horizon problems were also related to the collective property of cooperatives and their distribution policies. The benefits from any specific investment could only be captured through the future use of the coop (Kyriakopoulus, 1999), therefore, members closer to retiring age or a member who did not trade any longer, would oppose long term investments and might even attempt to withdraw the capital previously contributed. As a result, the investment policy of the coop might be not reflected the best long-term options and the membership would be not fully satisfied (O'Connor and Thomson, 2001). The horizon problem was partially avoided when membership was transferred from one generation to the other.

3.6.3 Portfolio problems

The portfolio problem derived from the way that cooperatives distributed benefits, the different incentives among members in relation to investments, and their attitude towards risk.

The fact that the benefits of any investment was related to the usage of the cooperative, acted as a barrier for a member to obtain his optimal portfolio because cooperative investments were made in accordance with the risk preferences of the majority of the membership. The lack of options to a participant in a way that would represent the risk preference of the member has resulted in sub-optimal levels of investments and limited business strategies (Cook, 1995; O'Connor and Thomson, 2001).

3.6.4 Influence cost problem

This problem occurred mainly because of the different interests and priorities among members. These different interests could represent members from one particular area, or members of a specific economic size, or members producing a particular product. All of those potential groups would have different interests but there was only one way to receive benefits from the cooperative: usage. Therefore, if these groups lobbied appropriately they could make the coop take decisions that were not in the best interests for the rest of the organisation. Internal "politics" have effected the governance of the coop, causing those members with political skills and not the required business skills normally to be elected to the board of directors. These issues were also the cause of time wasted at board and management level in order to deal with internal politics. As a result, the cooperative was not governed by the most effective board, which also spent too much time dealing with internal politics, and finally, the strategy selection process was not optimal (O'Connor and Thomson, 2001; van Bekkum, 2001).

3.6.5 Decision problem

Cooperatives did not have specialised markets or mechanisms such as share prices or financial institutions focusing on their performances, therefore, there was an absence of third party control and evaluation. Consequently, a decision problem could be viewed as the result of inefficient mechanisms to evaluate the quality of the decision making process. In other words, decisions would not be evaluated by third parties, so it was more difficult to see if the business was taking the right direction. Furthermore, it was very difficult for the management to weight members' preferences, and to relate them to the long term benefit of the coop. This is aggravated by the fact that the management was not allowed to own shares in the cooperative (Kyriakopoulus, 1999; and van Bekkum, 2001).

A monitoring problem has arisen from the fact that in traditional cooperatives the management was not entitled to claim residual benefits, thus widening the gap between members' and managers' interest. Furthermore, a *follow up problem* has been mainly caused because of the democratic principle of cooperatives (one member one vote), which did not promote the participation of members in the control and monitoring of the coop owing to the very little influence that individual members could exercise (van Bekkum, 2001). As a result, the decision making process was not efficient and could put at risk the long term competitiveness of the organization.

All the problems mentioned above were normally aggravated when the membership of a cooperative increased and especially when it became more diversified, in respect to, size, age or nationality (Kyriakopoulus, 1999), due to the wider range of interests among the membership and the limited mechanisms available in the traditional model of cooperatives to reward and align owners-members. However as has been pointed out by O'Connor and Thomson (2001), traditional coops had the right structure to succeed in the commodity business, particularly because of the access that coops had to their members' production and the security that coops were able to offer to their members provided an assured market.

3.6.6 Location of cooperatives

The Thunen model suggests that cities are the centre of all economic activities, and further away from the centre (remote areas) the ratio of local prices to labour increases, whilst the rent decreases. This creates the Thunen rings that locate different economic activities according with the intensity of use of the factors of production (Hite, 1999).

Traditionally, cooperatives have been associated to particular locations (areas, counties, regions), and in most cases their names made reference to these places. Also, the nature of the farming business dictates that cooperatives have been formed mainly in locations where farmers had less market opportunities, creating a relation between cooperatives and remote places. It has been suggested that the limitations of traditional cooperatives would be accentuated the further the members are from the cities and market opportunities. Hite (1999) says that remoteness accentuates assets fixity and slow down change. Therefore, the Thunen model relates to the increases of exit barriers for farmers in traditional cooperatives as well as the accentuation of the problem of common property described in section 3.6.1.

Hite (1999) suggested that major innovations would destabilize Thunen rings. The frontiers of these rings are constantly changing due to advances in technology and the increasing complexity of the business environment. Therefore, nowadays we may be looking at the Thunen model with a different idea of remoteness. Instead of geographical distance from the cities, we should be analysing distance or barriers to market channels, to consumer knowledge or to brand recognition.

3.7 Summary

History has shown that the cooperative model has evolved over the years in order to suit the economic environment. Through all these changes the cooperative model had always been a response to unwanted situations or factors affecting the lives of those involved.

Agricultural cooperatives have played a significant role in the development of the cooperative movement in North America, where ideas were strongly supported by social and political movements which were trying to introduce some power balance to the society of the 19^{th} century.

The cooperative movement in UK didn't receive much Government support during the first half of the 20^{th} century. During the 70s and 80s cereal organisations received most of the support to build storage and drying capacity. Thanks to these supports from the EC and the UK Government the cooperative movement significantly expanded from mid 70s to mid 80s

The cooperative model has been adapted to so many different situations that what could be identified as a cooperative in one country probably would not qualify for cooperative status in another. Consequently, the definition of a co operative has also evolved; the USDA's definition of a cooperative as an organisation was that it should be owned by members, controlled by the members, and that the members were the recipient of the benefits, would be the most accepted interpretation.

In the opinion of the International Cooperative Alliance, cooperative principles were guidelines by which cooperatives put their values into practice. These guidelines could be outlined as: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education training and information, cooperation among cooperatives, concern for the community.

However, these guidelines have been challenged by agricultural cooperatives in order to remain competitive in the marketplace. Therefore, the cooperative principles have been guidelines for cooperative structure and always the final decision have rested with the people involved to choose which principle they wished to adhere to.

Cooperatives, as with any other collaborative ventures, were tools/mechanisms used by companies or individuals to gain economic power in the market place by gathering resources and demands together in order to access economies of scale that would allow them to: a) gain bargaining power (buying or selling), b) reduce costs (production, processing, transport, finances, specialists, R&D, market research, branding etc), c) access to new markets and initiatives (environmental and communal).

The traditional model of cooperation posed some well-known limitations:

- The common property problem: derived from the way in which capital resources have been treated as common property. Owing to the retention of profits to obtain capital, the members who have traded the most have made the bigger contribution, but this is not recognised in the dividends policy or the contribution made at the time of retirement. As a result, the free rider problems emerged, when new members did not have to make a significant contribution to join the organisation.

- Horizon problem: also related to the common property problem, the benefits from any investment could only be realised through the future use of the cooperative. Consequently, there is no incentive to invest among older members and the best long-term options for the membership might not be reflected in the investment policy.

- Portfolio problems: benefits and investments are related to the usage of the coop, thereby acting as a barrier to obtain an optimum portfolio owing to investments being made in accordance with the risk preference of the majority of the membership.

- Influence cost problems: internal politics have affected the governance of the coop, with the result that those members with political skills but not with the required business skills, may be elected to the board of directors.

- Decision problems: owing to the lack of a market to trade shares that would represent the performance of the organisation and the management team, cooperatives would probably take decisions that were not in the best interest of the business, mainly because there is not a third party that can evaluate these decisions.

<u>Contribution to the research objectives:</u> Chapter Three emphasised that the cooperative model has changed over the years in order to survive and help its members. Many researchers and industry observers have questioned if the changes have equipped the cooperative model to compete effectively in a global supply chain, therefore it could be said that the model needs to evolve even further to remain competitive.

4. COLLABORATION DIVERSITY

The previous chapter emphasised the evolution of the cooperative model and how it had been adapted throughout the last century to the different economic changes and countries in order to offer maximum benefits to its members. In addition to the benefits of the traditional model, the principal limitations of this model were addressed in the failure to satisfy some of the basic requirements of today's society. Despite the relative inflexibility of the cooperative principles, and the limitations of the traditional model, the diversity of cooperative ventures is remarkable. Therefore, Chapter 4 reveals some of this variety.

4.1 Classifications

There were so many different forms or models of cooperatives that they have been classified in many ways. These classifications have been based on one of the following variables, or a combination of some of them: stakeholders, activities, purposes, organizational structure, business strategy, economic scale, legal framework, ownership and geographic influence.

4.1.1 By stakeholders

Because of the adaptability of the cooperative model, there were cooperative enterprises in almost every industry which served many different purposes. In the judgement of the Centre for Cooperative of the University of Wisconsin (1998), normally coops could be classified in to three main types:

Agricultural cooperatives: (in general) were formed by farmers and other producers to process and market their products or to provide supplies needed for their farms and businesses.

Consumer Cooperatives: were formed by consumers to buy groceries, financial services, and many other goods and services, for example: retail food coops and credit unions

Workers Cooperatives: were owned by the employees who worked in them

Following a similar approach, Parnell (1999a) maintained that the main objective of any business was to provide benefits to the group that the enterprise was established to serve. He referred to this group as the cardinal stakeholders group, and it was from where the members were drawn. Parnell (1999a) identified different types of cooperatives in accordance with their cardinal stakeholder group:

Type of Cooperative	Cardinal Stakeholder Group
Farmers' cooperative	
Marketing	suppliers of produce
Farm input supply	consumers of farm supplies
Consumer cooperative	consumers
Housing cooperatives	home owners or householders
Workers' cooperative	workforce of the cooperative
Financial cooperative	savers and borrowers
Business cooperatives	business and entrepreneurs

Parnell (1999a) added that basically there were two forms of cooperation, socio-economic cooperation or mutual cooperation, and business cooperation.

Mutual cooperation: individuals who provided a service for themselves in order to increase their quality of life, social cohesion and bargaining power.
Business cooperation: business persons (entrepreneurs) and small to medium sized enterprises (SMEs) which combined in order to compete, to remain profitable, and to maintain their independence.

Parnell (1999a) pointed out that nowadays many agricultural cooperatives have changed their cardinal stakeholder group, mainly because their active members were farming businesses and entrepreneurs instead of the traditional family-owned farm enterprises, consequently, their cooperatives should be considered as business cooperation.

4.1.2 By activity or function

The Plunkett Foundation (1992) classified collaborative ventures in the farming industry in conformity with their legal framework as well as their purposes:

- Types of cooperatives

Requisite or Supply cooperatives: Mainly concerned with agricultural inputs supplies, including feed compounding, seed dressing and sometimes marketing the member's products. Some of these cooperatives have become large organisations that also could be classified as multipurpose cooperatives.

Marketing cooperatives: in general, the member's produce was marketed, with or without transformation. These coops normally owned grain storages, cold storages, grading and packing equipment. They charged their members a levy or a commission, and members' agreements were common practice.

Service Cooperatives: normally could undertake a variety of miscellaneous activities in order to support the farm business, for example: machinery rings, processing, etc.

- Marketing Boards: organizations established by statute but placed under the control of primary agricultural producers.

The Plunkett Foundation (1992) introduced the term Farmer Controlled Business (FCB): a public or private company that because farmers owned the majority of the company and acted in the best interest of the farmers as primary producers above the interest of investors, it could be referred to as a Farmer Control Business and in some cases cooperatives. Because of this, the FCB may also be classified in the same types (categories) as the traditional cooperatives.

4.1.3 By scale and type of collaboration

Using the term FCB as a broader concept that farmers' cooperatives, EFFP (2004b) defined FCB as a formal collaboration between farmers involving an organisational architecture capable of managing a business. Therefore, a "FCB is a separate legal entity often established as an Industrial and Provident Society or a limited company with farmers members as shareholders" EFFP (2004b). For more information about legal frameworks see chapter 5.

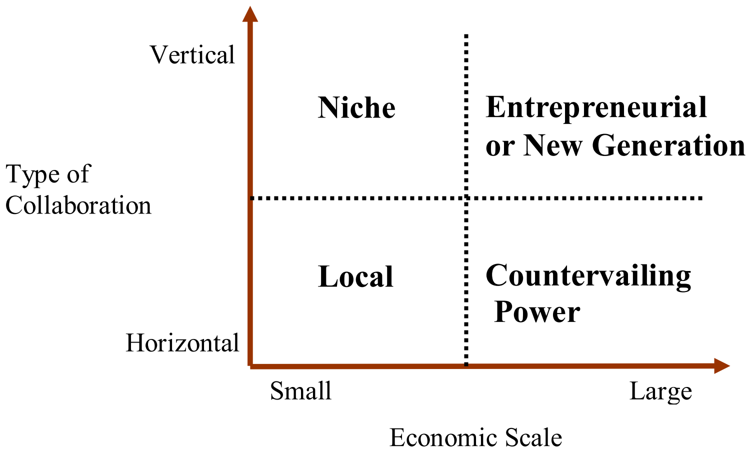
EFFP separated FCBs in two big groups according with their purposes:

Purchasing collaboration: included the traditional supply cooperatives (established to source seed, feed, fertilizer, machinery and other consumables) as well as rural retailers and buying groups.

Marketing collaboration: also known as countervailing power organisations because the main objective was to receive the benefits of large-scale operations in the handling, processing and commercialisation of members' production.

Furthermore, FCBs were classified according with their business scale and their type of collaboration (see figure 4.1):

Figure 4.1 EFFP's classification of FCBs



Source :EFFP (2004a), modified

4.1.4 By membership structure

Cobia (1989) classified three types of cooperatives in respect to their membership structure:

In centralized cooperatives farmers held direct membership and voted directly for their board of directors. Centralised coops could be divided into local coops or regional coops. The local coops were normally smaller but enjoyed more personalised relations with their members. In the view of Cobia (1989), the advantages of local coops were the similarities among members regarding production or marketing issues, what increased members' support and loyalty.

The centralised cooperatives held direct membership in federated cooperatives, and voted for their board of directors; therefore, the farmers were indirect members of the federated coop. This was an alternative model to mergers or consolidation for existing centralised coops which were trying to gather resources together in order to limit the risk of its member's coops. However, members were less homogenous than in centralized cooperatives which could interfere with the business strategy as well as coordination and control of products.

A third possible structure was also identified by Cobia (1989) which was a combination of centralised and federated cooperatives. Issues of governance could arise from the combined structure, these would normally be addressed by imaginative voting mechanisms.

4.1.5 By principles

Four types of cooperatives were classified in respect to their principles by Barton (1989):

The Rochdale type of cooperatives, apply all of the Rochdale principles described in chapter 3.

The traditional type of cooperatives could be described as basically the similar to the previous type, but had not formally agreed to follow all the Rochdale principles, leaving some space for manoeuvre if needed.

In the proportionality based type of coop, members had to provide equity in proportion to their patronage. That would also be related to their voting power and their rights over the distribution of surpluses.

Finally, the contemporary type of cooperative was similar to the proportionality based type, but differed in that the voting could be on a one member-one vote basis, the equity provided by the patrons could be provided in many different ways, and the distribution of surpluses affected on a cost basis.

4.1.6 By evolutionary patterns

Van Dijk (1999) was cited by Van Bekkum (2001) who maintained that this kind of classification suggested an evolution of the cooperative model as circumstances changed:

The first generation cooperatives were set up to correct market failures by increasing economic scale and processing efficiency. This type of coop normally followed the Rochdale principles and possessed a cost price leadership strategy.

The second generation of cooperatives have invested in infrastructure that has allowed them to be vertically integrated into the processing of high quality standardized products. Membership was normally closed; delivery rights were delivery obligations; and the board of directors had a supervisory role over a more distant management team.

The third generation of cooperatives were similar to the second generation, but with a more refined supply chain, which was more precise in order to meet the requirements demanded.

The fourth generation of cooperatives were also similar to the second generation but employed contracts with their members in order to secure the supply of products.

4.1.7 By structure and strategic evolution

The concept of adaptability of the cooperative model was identified by Cook (1995); he classified U.S. cooperatives in respect to their structure and their strategic evolution. Cook (1995) named the different groups as: Nourse I, Nourse II, Sapiro I, Sapiro II, and Sapiro III.

The Nourse I type of coops were multipurpose local cooperatives operating in a specific geographical area. This kind of coop usually assembled commodities and retails inputs to its members. Nourse I coops were founded to provide a missing service or to avoid monopoly power from IOFs, however, most of this type of coops have developed a market presence in their area that could be monopolistic or monopsonist.

The Nourse II type coops have been defined as multifunctional regional cooperatives with input procurement, services and marketing normally combined. Some have been integrated either forward or backward in the supply chain and would be structured as federated or centralised cooperatives. One difference between Nourse I cooperatives, and the Nourse II coops was that for the second it was extremely difficult to develop a monopolistic market presence, which may be covering owing to their regional coverage.

The Sapiro I types of coops were bargaining cooperatives which dealt with market failures through horizontal integration. The objective of these coops was to increase the producers' power, at the time of negotiating contracts with first handlers, in order to obtain better margins and to have a guaranteed market. This final point has been of importance to Sapiro I coops because they have normally been formed by producers of perishable products.

The Sapiro II type of coops were marketing cooperatives vertically integrated in order to compete with private handlers. This type of coop was commodity orientated and the main objective was to increase the margins for the members.

The Sapiro III type of coops were value added marketing cooperatives described later in this chapter as New Generation Cooperatives (NGCs).

Following the two economic justifications for the formation of cooperatives: a) a need for economic balance when prices were totally supply-induced, and b) a need for security against market failures, Cook (1995) has indicated that the formation of agricultural coops in the U.S. had both survival and defensive roots.

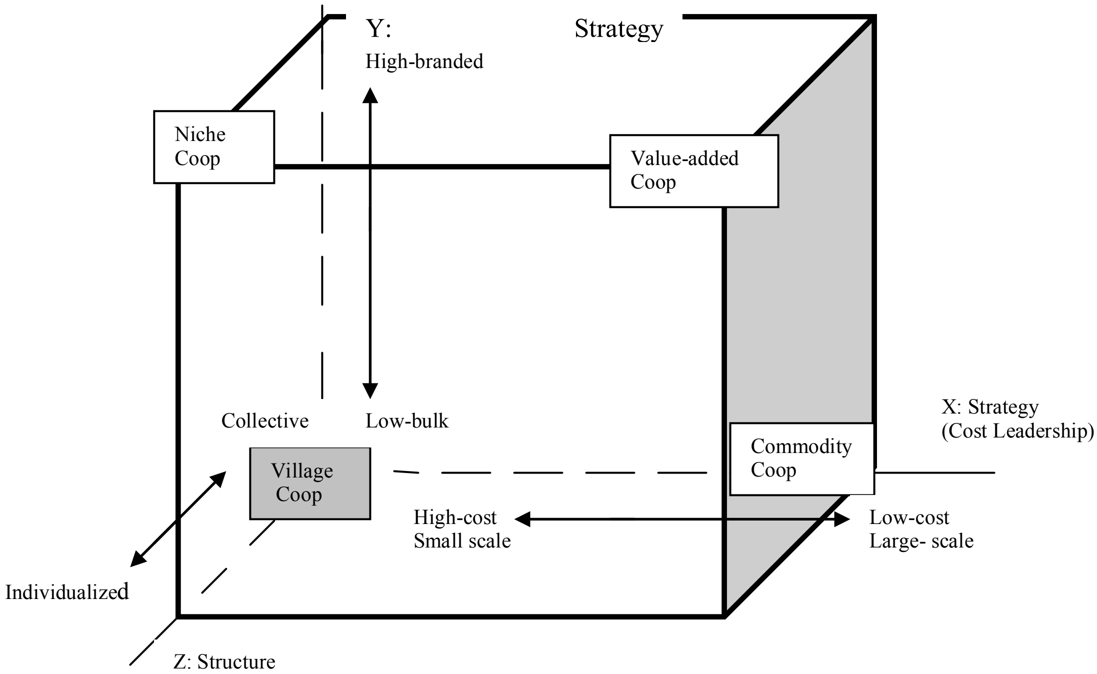
4.1.8 By strategy and structure

van Bekkum (2001) proposed a new taxonomy for cooperative models. By using cost leadership, differentiation strategies and organizational structure as variables, he represented the new classification in a three dimensions diagram (See figure 4.2). Focus strategy represented a small business with, either, an undifferentiated set of products focused in a specific region, or a clear differentiated output focused on a specific set of consumers, but in a wider geographical area. The organizational structure represented the variety of mechanisms used by different cooperatives to transfer incentive signals to their owners and managers. By incentives he meant the distribution of rights to residual surpluses and residual control (van Bekkum, 2001).

As could be seen in figure 4.2 the author identified four different types of coops which have been placed in the corners of the diagram (cube), those models may be depicted: niche coop, value added-coop, village coop and commodity coop.

The Village coop had: a small business scale with relatively high operational costs, undifferentiated products, and was collectively structured. They were normally small and locally orientated coops with limited products requirements thanks to a lack of competition in the area. It is argued by the author that this type of coop did not require investments and that members' interests were quite homogenous, therefore, a collective organization structure, with democratic voting, equal pricing, and unallocated capital suited members' preferences. To this group belonged most of the coops that applied the Rochdale principles, and those cooperatives which were referred to as "traditional coops" (van Bekkum, 2001).

Figure 4.2: The Cooperative model cube: strategy and structure in three dimensions



Source: van Bekkum (2001), verbatim

The commodity coop had: a large business scale with lower operational costs, undifferentiated products, and was collectively structured. This kind of coop normally started as a village coop that had grown over the years. They did not have processing facilities but they negotiated price on behalf of a large volume of production. The main aim of the coop was to increase the volume traded, consequently they had an open membership, entry was free, they applied totally democratic principles, investments were limited and they used unallocated reserves. Their membership was quite homogenous, the management simple, and the requirement for management monitoring quite low (van Bekkum, 2001).

The niche coop had: a small scale with relatively high operational costs, highly differentiated products (branded), and an individualised structure. The membership invested heavily in order to follow a clear focus-differentiation strategy. Despite this peculiarity this type of coop was, in fact, quite similar to the value-added coop, the niche coop specialised in niche markets: regional, specific consumer groups, and speciality products. High obligatory investment per unit of raw material is required, as well as a very strict set of specifications for the product delivered. The membership is normally closed; the contracts revealed an individualised structure, and the shares were tradable. The most popular cooperatives in this group were the New Generation Cooperatives (van Bekkum, 2001) (see section 4.2 of this chapter).

The value added coop had: a large business scale with a relatively low cost of operation, highly differentiated products, and an individualised structure. This type of coop invested hard in processing and marketing in order to target the top market segments. To achieve these objectives the internal structure required: differentiated pricing, delivery rights, individualised investments, tradable and appreciable forms of capital. The membership normally was quite heterogeneous owing to its geographical dispersion as well as its considerable size, therefore, a very individualised structure is required to keep members interests aligned and investment attracted (van Bekkum, 2001).

4.1.9 By ownership rights

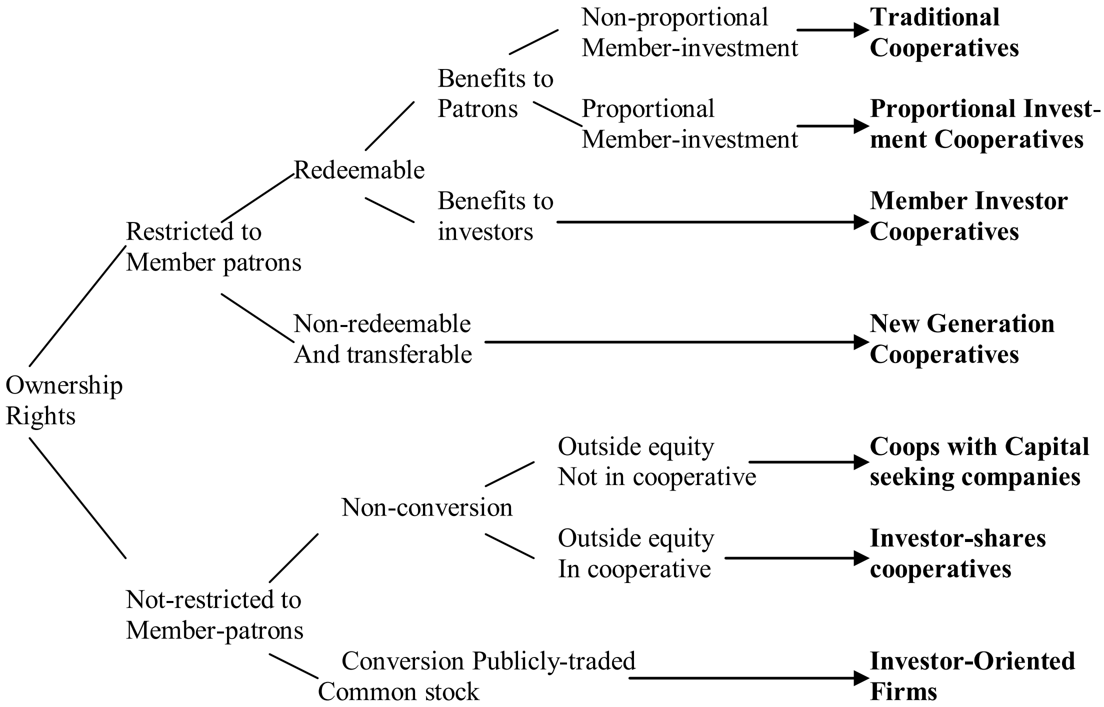
Chaddad and Cook (2003) classified different cooperative models according to the way that ownership rights were defined and assigned to members, patrons, and investors. The analysis is based in two concepts, residual returns or claims, and residual rights of control. Residual rights are defined as "the rights to make any decision regarding the use of an asset that is not explicitly attenuated by law or assigned to other parties by contract". Chaddad and Cook (2003) also clarified what they meant by residual claims: "…the rights to the net income generated by the firm…" and they are also considered "…the residual risk bearers of the firm…". At one extreme of their classification is the traditional model of cooperatives, whilst in the other extreme the investor orientated firm (IOF) was identified. Between these two extremes the authors situated five different models of cooperation with varying forms of ownership rights and organisational structures. See Figure 4.3 below.

Traditional cooperative: ownership rights have been restricted to member-patrons; residual return rights non transferable, non-appreciable and redeemable; benefits distributed to members in proportion to patronage.

Investor owned firms: unrestricted residual claims which were non redeemable but were freely tradable; combined with unlimited horizon of residual claims; and unrestricted nature of common stock

Proportional investment cooperatives: ownership rights restricted to patrons, redeemable, non-transferable, and non-appreciable. Benefits proportional to investments which had to be proportional to patronage (capital pools and capital plans).

Figure 4.3 Models of cooperation- ownership rights and organisational structure



Source: Chaddad and Cook (2003), verbatim

Member-investor cooperatives: ownership rights restricted to patrons, redeemable and non-transferable. The benefits are distributed to members in proportion to patronage as well as shareholding through dividends or value appreciation (participation units, capital units, redeemable preference shares).

New generation cooperatives: ownership rights restricted to patrons, transferable (with limitations) but non-redeemable. Investment had to be done up-front and proportional to patronage, which would be controlled by marketing agreements.

Cooperatives with capital seeking companies: ownership rights available to outside investors in separate companies partly owned by the cooperatives. Investment capital is accepted in trusts companies, strategic alliances or subsidiaries.

Investor-share cooperatives: ownership rights of the cooperatives were available to outside investors, without turning into an IOF. To allow this, the cooperative issued a different type or class of shares for the investors from the one available for member-patrons. The investors' shares could have different terms of returns, risk bearing, control, redeemability and transferability (preferred stocks, non-voting common stock, participation certificates).

4.1.10 By business structure.

Cooperatives were classified by Van Dijk (1999) in respect to their entrepreneurial characteristics. He defined cooperatives as a two-layer entrepreneurial system in which a cooperative is owned, used and controlled by members firms. He assumed that the main objective of an investor owned firm (IOF) has to maximize shareholder value, whilst, in the coop, it was to maximize member benefits.

It has been pointed out by Van Dijk (1999) that one disadvantage for most of producer coops was that the members decided how much they were going to produce and then the coop had the responsibility to market the product, therefore, coops could be considered as extensions of farms. Following Van Dijk's (1999) suggestion that cooperatives were at a disadvantage in acquisition activities to build new business portfolios, he identified four possible business structures for those cooperatives to realise that they could not be competitive as price leaders.

The first option could be to become an IOF. He said that it would be a good idea if the business was really profitable and another coop would take the position of price leader.

The second option was to maintain the coop as it was, but create IOFs as subsidiaries firms (SF) to deal with the new business. The SF should be run as a corporate business and should be able to accept non-members' equity, if it were to the benefit of the members. It is suggested that the SF should take an entrepreneurial lead and control the marketing side of the business, whilst the coop should be responsible for the discipline and quality requirements of the products supplied by members of the coop. This concept could also work if instead of SF, locals coops form a federative coop (FED) also known as 2^{nd} tier coop, or a coop of coops, in order to bring scale, coordination, marketing and pricing polices to the business.

The third option, the New Generation Cooperatives (NGCs), were referred to by van Dijk as an investor orientated cooperatives. He maintained that they were market led coops which were in a similar position to an IOF, except in stock listing. The performance of the cop was indicated by its share value, and also provided an indication of whether production should be expanded or not.

The fourth option has been defined as cooperation cross borders. This could be achieved producer coops introducing an international membership, or by national coops forming international Federative (FED) coop with cross border interests, or by national coops being shareholders of an IOF with an international orientation.

It was also argued by Van Dijk (1999) that it was becoming more difficult for farmers members to invest in a business that later was going to discipline them, and at the same time to take a risk for business. Finally, it was recognized that this "modernisation" in coops' structures could result in losing some of the coop's characteristics, especially the proportionality between usage and ownership, but he still maintained that the changes were necessary because big and inflexible cooperatives probably would disappear.

4.1.11 By market segments

Changes in international markets required more product differentiation. In order to follow this trend coops had to produce differentiated products to target specific markets. As a result of this, the traditional homogeneity of the membership started to be under threat owing to differences of interest among of members (Nilsson and Petersen, 2000).

In responding to these changes, variants of the traditional model of cooperatives have emerged. Nilsson and Petersen (2000) said that new models divided the cooperative operations into segments, each producing and marketing a specific type of product, transferring the market segmentation to the members and the business operations.

Hanf and Schweickert (2006) highlighted how traditional cooperatives have successfully changed their strategies, increasing their share of the market and their sales revenues, by reorganising the membership into strategic members groups. A strategic member group has been decided as a c luster of firms which had a s imilar strategy, aimed at the same market, having homogeneous interests and being a cooperative itself or being part of a co operative. Therefore, a strategic member group could be described as being homogeneous within itself and being heterogeneous against other strategic member groups. Within groups, traditional cooperatives principles such as open membership and unlimited production have been challenged (Hanf and Schweickert, 2006).

Lopez *et al*. (2005) also emphasised the success of cooperatives that have challenged the traditional cooperative principles. In these cooperatives there is not common capital, instead it is all nominated to its members. The inexistence of common capital has prevented the free riding problem, typical in traditional coops, as well as acting as an exit barrier to members leaving the cooperative, thereby bringing stability and compromise. This new collaborative models also have unlimited responsibility for debts, bringing a sense of ownership to members because they felt much more responsible for the company (Lopez *et al*. 2005). Also, the decision making processes was related to the participation in the capital of the cooperatives, allowing members to be much more involved in the business, thus increasing the sense of pertinence, commitment and participation (Lopez, 2005).

4.1.12 Summary

There were different classifications of FCBs, mainly because there were a h uge variety of adaptations of the cooperative model. FCBs could be classified by: shareholders, activities, scale, membership structure, principles, evolutionary patterns, structures, strategies, ownership rights, and market target.

Owing to the fact that the farm industry was mostly formed by farm business, it has been recognised that the majority of agricultural cooperatives were becoming more business cooperatives with financial and social responsibilities.

Among the wide range of cooperatives existing nowadays, there were many that had challenged cooperative principles in order to suit the preferences of their stakeholders. Some of the features of these new models of cooperation were:

- Coops based on proportionality: equity proportional to patronage, to voting power, and distribution of surpluses.
- Closed memberships: to avoid over supply, and to maintain a like-minded membership.
- Individual contracts: members' agreements with clear specifications of right and duties.
- Delivery rights: strict product specifications for members, to standardise supply in order to better satisfy consumers.
- Capital titles: tradable and appreciable shares/delivery rights, to decrease exit barriers, to control performance, and to capitalise the performance of the coop.
- Non-farmers' members: external investors or members with different types of shares to attract capital or add value moving further in the food chain.
- IOF as subsidiaries: to add value and to have access to new markets.
- Internationalisation: coops with overseas members, or as international subsidiaries.
- Federations: network of cooperatives or FCBs to gain scale, to market access or to add value.

In order to better satisfy their customers, some cooperatives have divided their membership in accordance with the type of products that they had to supply. In other words, instead of dividing the farmer members by geographical regions, the membership has been divided in respect to the coop's clients. This system permitted the transference of market signals to the members in addition to adjusting production to specific customers.

4.2 New Generation Coops

The New Generation Cooperatives (NGCs) were very important because they were designed and developed to overcome the most significant limitations of the traditional model of cooperation.

NGCs were clear examples of structural and strategic developments in order to succeed in the dynamic environment of the new industrialized agriculture (Fulton and Gibbings, 2000). Their focus has been to change members' incentives and their agriculture structural (Zeuli, 2004).

According to Cook (1995), the great majority of NGCs have been formed for the same reasons as traditional cooperatives: in response to some aspect of market failures. Their intension was, to secure additional profits through value added enterprises, or as community economic development mechanisms.

The NGCs became really popular in the 80s and 90s with the formation of hundreds of coops in the Midwest of the US (sugar beet farmers form the first NGC in the mid 70s). Their success factors were: transparency, close integration between members' activities and the coop, high level of members' investment and participation, a more consumer and supply chain focus (Fairbairn, 2004), strong and committed membership, leadership, robust equity financing, and technical guidance (Warner, no date).

The value added marketing activities of the NGCs have made farmers aware of market's characteristics and how these markets work. Also, the NGCs have brought vitality to rural areas in the form of jobs, local infrastructure, and economic development (Torgerson, 2004).

An opportunity has been offered to farmers by NGCs to add value to their production through processing and to allow them to keep a greater share of the total profit. The development of successful NGCs have helped farmers to compete in today's market place by working together in order to achieve the needed scale to be able to invest in processing facilities.

4.2.1 Differences between NGCs and traditional coops

The differences between NGCs and traditional coops may be defined as: a) restricted or closed membership, b) delivery rights (amount of a product that a member is entitled to send to the coop) based upon the numbers of shares held, c) earnings distributed amongst members on the basis of shares (=delivery rights), d) members allowed to buy varying numbers of shares, but these shares were normally legally binding agreements to deliver the predetermined quantity of the commodity (Warner, no date).

In the view of Zeuli (2004), because members had the right and the obligation to deliver a specific quantity of product, when they are not able to supply the agreed amount, they were obliged to buy the commodity somewhere else in order to fulfil the contract, which demonstrated a great advantage over traditional coops that normally dealt with uncertain supplies. T orgerson (2004) has indicated that the issue of delivery rights in relation to with the operational capacity of the facilities has brought a very market-orientated focus to the NGCs because they were dealing with a discrete volume of a product.

The core characteristic of NGCs was that capital was not treated as common property because members bought shares in proportion to their delivery rights. The shares could be bought when they were issued, or could be bought from another member at market rates. The reward to the members could be in the form of dividend or in the form of a premium on the price of the supplied products (O'Connor and Thomson, 2001).

The tradability of shares reflected the worth of the firm, and the value of the shares represented access to the profits of the organization (Zeuli, 2004). Because shares and delivery rights were appreciable, they were better aligned with the farm operator's objectives; increasing, eventually, the value of the farm (Torgerson, 2004).

4.2.2 Dealing with traditional coops' problems

Following a similar idea, Fulton and Gibbings (2000) emphasised that in NGCs, property rights were better defined than in traditional coops, mainly owing to the tradability of those rights as well as their value fluctuation. As a result of this, the free rider problem, the horizon problem and the portfolio problem of the traditional coops have almost disappeared, thereby increasing the perception of ownership and control among the membership. O'Connor and Thomson (2001), and supported by Royer

(2004), stated that there were not free riders because the new members had to make a total contribution to the base capital at the initial stages of the coop, or they had to buy shares (=delivery rights) from an existing member at a market price.

The horizon problem was eliminated by the ability to sell their shares at a market value, because the total numbers of shares reflected the full value of the equity held, therefore, investment decisions could be made on the basis of their expected profitability. Owing to the tradability of the shares, the portfolio problem in respect to NGCs was diminished, allowing those which did not have the same risk preferences as the coop a r elatively easy exit. Generally, exit from the coop was an extreme option; therefore most of the NGCs had members with different risk preferences.

The transparency of the share price has reduced significantly the control problem, which reflected the view of both actual and potential members regarding the performance and prospects of the coop. Furthermore, the share price could be used as a feed back on management performance, thus bringing transparency to the organization. Influence costs were also reduced in NGCs thanks to their focus on a specific business in addition to their relatively small size (O'Connor and Thomson, 2001).

According to the Minnesota Association of Cooperatives, the success of the NGC in Minnesota (USA) is because legislative support, the leadership and the support of the residents (Warner, no dated).

4.2.3 Membership

The relation between cooperatives and their members has always been an issue in the cooperative world. Fulton and Gibbings (2000) have said that the linkage between agricultural coops and their membership has not been as successful as was expected when this relation was based on lifestyle or values. However, the farmers' desire to take part in profit-making value-added enterprises instead of simply receiving a price for their product have been exploited by the NGCs. Therefore, NGC's members have normally seen themselves as being part of the food supply chain and not only as farmers.

In the opinion of Torgerson (2004), the initial commitment of capital by members has meant that they were really interested in the success of the cooperative. Furthermore, the NGCs were offering them the opportunity to participate and to invest directly in a value added enterprise. As a result, the type of farmer who normally participated in NGCs was different from those attracted to either traditional coops or IOF (Fulton and Gibbings, 2000).

Zeuli (2004) has added that in NGCs the membership has been driven by profit and was very concerned about building a viable value added enterprise. In further to this, Zeuli (2004) has stated that the limitation in the number of members was a good way to ensure a stable supply of products to the operations, as well as the mechanism to decrease transaction costs thanks to the homogeneity of the membership. The concept of restricted membership of NGCs has been supported by Schaffner (2004). It allowed them to overcome two of the major defects inherent in traditional coops, by avoiding the tendency of keeping the membership open to potential members, and introducing new product, which could result with a decrease on profitability. Also, a closed membership addressed a disincentive of open-coops' members which did not invest in their coops because they only saw the organization as storage for their products (Schaffner, 2004).

4.2.4 Members' reward and reinvestment

Organizations with clear delivery rights and appreciable and transferable equity shares have been supported by Sykuta (2001) as they were more effective when contracting with producers for high value products, and also gave members the opportunity to capture value from the cooperative's activities. Members were able to capture their equity return through both, patronage and equity capital appreciation, creating the dilemma of either to reinvest earnings into the organization or to pay them back to the members through patronage. This decision normally was highly influenced by tax policies (Sykuta, 2001).

Warner (no date) listed the success factors of NGCs, and stated that they were the same that determined the success of most of the Investor Own Firms.

Factors Contributing to the Success of the NGCs (Waner, no date):

- Successful marketing of product
- Accurate perception of need for product
- Financial commitment of members
- Employing an experienced professional manager
- Favourable market conditions
- Effective management practices
- Availability of local finance or capital

4.2.5 Problems of New Generation Cooperatives (NGC)

It has been maintained by Royer (2004) that the link between the delivery rights with initial investment required to buy shares in the coop has been acted as a financial barrier for new members. Also, a significant appreciation in the value of the shares could act as an exit barrier for existing members, therefore, some leasing contracts and financial arrangements have been put into place in order to allow new members into the coop.

NGCs have maintained the one-member-one-vote basis for the election of their directors; thus, similar problems have existed as of those in traditional coops in respect to governance and control. However, keeping the business and the membership focused has allowed the NGCs to minimize these problems (O'Connor and Thomson, 2001). Fulton and Gibbings (2000) agreed with this position, saying that, by focusing the cooperative on a specific business there was a reduction in the issues of control and influence. O'Connor and Thomson (2001) have attested that the public price of shares helped to diminish the control problem, but still the NGCs suffered from similar limitations as the traditional coops owing to the absence of professional scrutiny that was applied to listed companies.

Torgerson (2004) emphasised two unwanted problems that NGCs could potentially face: a) a buyer's market is created by virtue of fragmented selling by many NGCs, and b) unwanted industry production capacity by virtue of making production decisions in isolation that has led to overproduction in the market.

It has been argued that a closed membership as well as the high investment required for participating in an NGC is not opening the market for all farm operations in rural communities. Furthermore, the success of NGCs could have an effect on the price of the land in a particular community, making it more difficult the access to land to non-members farmers (Torgerson, 2004).

Warner (no date) listed the potential pitfalls and obstacles to the formation or operation of NGCs. Warner also stated that they were the same problems and obstacles that faced most of the Investor Owned Firms trying to succeed in the market place.

Ten potential pitfalls for NGC:

- Lack of clearly identified mission
- Inadequate planning
- Failure to use advisors or consultants
- Lack of member leadership
- Lack of member commitment
- Inadequate management
- Failure to identify and minimize risk
- Overly optimistic assumptions
- Not enough capital
- Inadequate communication

Obstacles to NGC formation or operation (Waner, no date):

Marketing the products

Borrowing funds from local financial institutions

Attracting enough members to participate

Retaining members during early or unprofitable years

Attracting experienced managers

Developing a plan of operations from the start

Low commodity prices

Hiring a qualified labour force

Finding members to replace those who leave

Torgerson (2004) has identified practices of some NGCs that could lead to internal problems:

- The ownership of delivery rights outside members own productions
- When off-market purchases of provisions has become a common practice instead of a contingency strategy
- When the leasing of delivery right is out of control of the board of directors
- Keeping delivery rights in the hands of former producers

Because of these issues, Torgerson (2004) had said that the model of NGCs should be considered a work in progress that needs to keep evolving. The preservation of farmer control of marketing strategies and the opportunity to capture extra margins would continue to be the main motivators for pursuing this strategy.

4.2.6 Summary

As organizations NGCs were very market orientated; they normally focused their strategies on a particular market, designing their structures to satisfy their customers in the best way possible.

Capital has not been treated as a common property, supplies were certain and members received their benefits proportional to their patronage, this could be through the payment of premium prices or dividends.

In NGCs, property rights are better defined owing to the tradability of those rights in addition to their value fluctuation. As a result, the free rider problem, the horizon problem and the portfolio problem traditional coops have almost disappeared, though increasing the perception of ownership and control among the membership.

The initial investments required, increased members' commitments, but also recruited a specific type of farmer who was not comfortable with traditional cooperatives or IOFs. A closed membership, was a good way to ensure a stable supply of products to the operations, as well as a mechanism to decrease transaction costs as a result of the homogeneity of the membership.

The one-member one-vote policy chosen by the NGCs has maintained the governance and control problems of traditional coops, however, owing to their focus on a particular market in addition to the homogeneity of membership, these problems have been minimised.

Most of the problems attributed to NGCs were similar problems that any kind of business, independent of their legal status, would face when competing in a highly competitive marketplace.

Furthermore, the problems identified as more related with the structure of the NGCs, are as a consequence success and they hardly affected the people who took the risk and controlled the development of a successful business.

Contribution to the research objectives: This chapter questioned the conventional view that there were not many ways to form a cooperative. Thus, it contributed by introducing new ideas and challenging the common believe that there is only one way to form a cooperative.

5. LEGAL STRUCTURES

Farmers have identified the legal framework (EFFP, 2004b) of the UK as one of the limitations for the development of FCBs. Therefore, this chapter has focused on the options available for both, farmers looking to set up a collaborative venture, or existing FCBs trying to modify their legal status or their internal rules.

5.1 The Private Sector

It has been stated by Buckley (1990) that a mixed economy with a mixture of private and public enterprises was normally accepted as a good thing for the people of UK because they have been created to satisfy the demands for goods and services of society. These organizations or enterprises, were owned by individuals or groups of individuals who relied on their organizations for their living, owing to the ultimate objective of the enterprises, that was to generate a profit for its owners (Buckley, 1990).

There are many legal structures under English law. They offer a range of advantages and disadvantages in both financial and management terms. For any new collaborative model to be acceptable to the agricultural sector, the advantages of the organisation's present legal structure must be protected. The inheritance planning of the medium size and larger business is such an example. For a more complete list of legal structures, see appendix 5.1.

5.1.1 The sole trader

According to Buckley (1990), the sole trader may be defined as the simplest form of business; basically, because the sole trader has set up his/her own business and he or she is the sole owner or proprietor. Adams (2003) added that the sole trader had total control of the business and all the profits were his. But, also, the sole trader had total responsibility for all the legal liabilities and financial risks of the business. Normally, he or she provided the capital to start the business; it could come from savings, relatives or a bank loan secured by a mortgage on the sole trader's home. The lenders to the business could bankrupt the sole trader because he or she was personally liable for all business debts (Adams, 2006). Despite that Buckley (1990) has identified the sole trader as the most common type of business, it is unlikely that it will be the answer for those farmers who are seeking more collaborative ventures.

5.1.2 Unincorporated organization

The Plunkett Foundation (2004b:50) listed the organization's structures available for rural social enterprises, and described an unincorporated organization as "a group of people bound together by common purposes, which has rules to identify whom controls it, with whom funds rest, and which members can join or leave voluntarily".

Unincorporated organizations were not separate legal entities. All assets, contracts and leases that the organization required, have to be owned by one or more members, therefore, those members carried unlimited personal liability. However, in comparison with incorporated companies, unincorporated organizations were cheaper to run mainly because they did not need to submit audited accounts (Plunkett Foundation, 2004b).

5.1.2.1 The partnership

A partnership could be described as an unincorporated association; it may be defined as an organization without any legal personality distinct from its members. Partners joined together to run a business in order to make and share the profits (Adams, 2006).

Buckley (1990) noticed that a partnership was very similar to a sole trader, mainly because the partners were those who provided the money, who took the decisions, and they usually worked in the organization. Adams (2003) added that as a sole trader, the partners normally borrowed capital from a bank and they were also personally liable for business debts. However, according to Buckley (1990), it could be worse, because they were responsible for the action of their partners. This meant that an act of one partner could result in the ruin of a business and might also cause the personal possessions of others partners to be liable for confiscation.

The partnership has been used as the legal framework for some small collaborative organisations formed by a very limited number of farmers, normally not more than two. We must therefore consider the legal/structural options available and their relative strength and weaknesses. See table 5.1 for a list of strength and weaknesses in the opinion of the Plunkett Foundation.

Table 5.1 Strengths and weaknesses of partnerships

Strength	Weaknesses
• Easy to establish • Complementary skills of partners were brought together • No formal “Annual Return” • Shared management risks, responsibilities and losses • Ability to attract limited partners (i.e. investors) • Little regulation to deal with	• Unlimited liability for decisions taken by other partners over which one had no control • Capital accumulation was not easy • Difficulties if a partner wishes to leave • Lack of continuity • Potential for personality and authority conflicts • Partners were bound by agreements of others

Source: Plunkett Foundation (2004b), adapted

5.1.2.2 Trusts

The Plunkett Foundation (2004b:50) described trusts “as custodians of assets, funds or property”. The trustees managed the trust in accordance with the instruction of the Trust Deed, which established that all the assets of the trust should be used for the benefit of its intended beneficiaries. Strengths and weaknesses of Trust in Table 5.2.

Table 5.2 Strengths and weaknesses of trusts

Strengths	Weaknesses
• Trust were cheap to establish • Unless it was a charity, a trust was not regulated by any statutory body • No annual reports or submissions, unless it was a charitable body • Trustees’ deliberation could be held in private • A trust required only two people	• Trustees had personal liability for the unlimited debts of the trust • Altering trust deeds could be complicated • Trusts are accountable only to themselves • It was difficult to remove trustees • The fact that trustees must personally hold assets or property made transfer of ownership hard

Source: Plunkett Foundation (2004b), adapted

5.1.2.3 Associations

"An association is formed when a g roup of people come together for an agreed purpose to benefit themselves or others as long as that purpose is not to make a profit" (Plunkett foundation, 2004b:51).

Profits should be used in continuance with the objectives of the association and cannot be transferred to its members. At least two members are needed to form an association, and all members have to agree to the incorporation of a new one. The purposes of an organization should be stated in a written constitution. Members were the owners of any asset, otherwise it could be held in the custody of trustees. There was no implied power to borrow or to employ staff; therefore, if it was not stated in the rules, a member involved in a particular act could be made personally liable. An association has its place when the purposes of its formation were temporary, specific or local (Plunkett foundation, 2004b). See table 5.3 below for a list of strengths and weaknesses. The formation of an association is a viable option for those producers who are looking for an easy and flexible entrance into collaborative organisations.

Table 5.3 Strengths and weaknesses of associations

Strength	Weaknesses
• Associations were easy to establish • Associations were flexible • Unless it was a charity, it was not regulated by any statutory body • Not limits in the number of members	• Not being a legal entity, an association could not enter into contracts itself and therefore could not employ staff

Source: Plunkett Foundation (2004b), adapted

5.1.3 Incorporated organization

5.1.3.1 The registered company

A registered company has been classified as an organization created in compliance with the registration procedures in the companies Act and monitored by the Companies Registry (Adams, 2003). Keenan and Riches (2005) have stated that two or more people who became its shareholders could create a registered company. Also directors should be appointed to manage the company, in addition to a company secretary.

Public companies would transfer their shares to any member of the public. Also, a listed company may be traded on the Stock Exchange, which could be a straightforward method of raising capital. Only large public companies could satisfy the requirements of the Financial Services in order to be eligible to be listed.

Adams (2005), maintained that there was some public companies operating in groups, where one of them (Holding company) controlled the others (subsidiary companies), and this would occur when a holding company could control the voting majority within subsidiaries.

When a company has been registered, a completely new legal organization will have been created with the result that its legal liabilities were totally separate from those of its members (Adams, 2003). Keenan and Riches (2005) have said that one aspect of the rule of limited liability was not to make the shareholders responsible for the company's debts or acts. However, they added, that directors and sometimes other shareholders might have some personal liability. Furthermore, some company's directors were often asked to give their personal guarantees in respect to certain debts of the company.

Depending on the type of company liability could be limited by shares or by guarantees (Adams, 2005). In respect to the suitability of a company limited by shares for a farmer controlled business, EFFP (2004b:43) reported that it: "is often used as an alternative to Industrial and Provident Societies (IPS). This is often because of the ease of formation and administration of a private limited company. However, the principle of maintenance of share capital applies. Shares in private limited companies are of a manifestly different nature to shares in an IPS, although, the tendency for private companies operating as cooperatives is to treat shares as an IPS does. Whilst it is possible to use a private limited company to operate a cooperative, care is required to ensure that the constitution is properly thought through."

5.1.3.2 Company limited by guarantee

The Plunkett Foundation (2004b:54) has maintained that:
"As an incorporated body, a Company Limited by Guarantee (CLG) enables members and owners to minimize their liabilities through the creation of a separate legal entity". The main difference between the most common Company limited by shares, instead of shareholders, was that the CLG is guaranteed by its members in the event of insolvency. Owing to its flexibility and popularity among lawyers and accountants, this type of legal form was very popular among social enterprise and not-for-profit organizations (Plunkett Foundation, 2004b). See table 5.4 for a list of strengths and weaknesses.

The Plunkett Foundation (2004b) listed the most important features of the CLG:

- Membership is offered by invitation only
- Membership cannot be publicly traded
- Members' liability goes up to the value of guarantee previously agreed
- CLG are governed by legislation including, but not limited to the Companies Act.
- An "Annual Return" must be submitted with basic information to the Registrar of Companies, as well as audited accounts to Companies House.
- The registration process was simple, and off-the-shelf companies could be bought
- The Memorandum of Association and Articles of Association have to be filed with the Registrar of Companies

Table 5.4 Strengths and weaknesses of Companies Limited by Guarantee

Strength	Weaknesses
• Low cost of formation • Initial capital could be small • Highly flexible. Could have a cooperative type-constitution • Limited liability could attract investors • Raise finance through loans. No external shareholders • Owned and controlled by members • Directors could be paid • Easy to maintain its objectives, invited members • Company continues if a member leaves • Limited liability attracts members.	• Submission of audited accounts • Submission of Annual Returns • Capital cannot be raised through share issues • Because of the limited assets, it was not easy to have access to loans. Sometimes the directors have to provide personal guarantee • Because board and membership were often the same, there is risk of mismanagement • Future members could modify the constitution (if is not locked) • Company accounts are publicly available. • A clause in the constitution could prevent assets being distributed for personal gain. • Corporate tax payable on profits

Source: Plunkett Foundation (2004b), adapted

In respect to the suitability of a company limited by guarantee for a farmer controlled business, EFFP (2004b:43) reported that "it can be useful in specific situations. Provides limited liability. Does not provide share capital, so not suitable where ownership linked to share capital is important. However, problems associated with what happens to a leaving member's share do not exist. Cannot raise finance through share capital so would be debt funded vehicle".

5.1.3.3 Cooperatives

In the opinion of the English Farming and Food Partnerships (EFFP, 2004b) the cooperative model has been the most popular when forming a Farmer Controlled Business because it benefited the farm business of the member, and this has been perceived as the main purpose for joining a Farmer Controlled Business.

Issert (1978) described the two ways to constitute a cooperative in the UK:

a) as an agricultural cooperative "society" under the Industrial and Provident Societies Acts 1965-1975
b) as a company under the Companies Acts 1958-1976

Issert (1978) added that both kinds of cooperatives must respect the cooperatives principles (limited remuneration of capital, distribution of surplus in accordance with the use made of the cooperative services, equality of voting in general meetings –one man one vote-, avoidance of improper restrictions on access to membership).

Since 2001 cooperative societies have been regulated by the Financial Services Authority (FSA), and to be registered a co operative should "carry out an industry, business or trade, whether retail or wholesale" (Plunkett Foundation, 2004b:58).

Furthermore the Plunkett Foundation (2004b) has maintained that a co operative society is governed by its “rules” instead of a Memorandum and articles of association (required by Company law). EFFP (2004b:14) has attested that “there is not a formal guidance on how, when or by whom these rules should be updated”, therefore, these “model rules” are normally drafted by consultants.

In respect to the control of cooperative societies, it was recommend by the FSA that it “should, in general, be one member one vote” (Plunkett Foundation, 2004b:58). However, the Plunkett Foundation (2004b:7) added “control is exercised by each member having equal, or nearly equal, voting power so that members with the largest capital holding do not dominate”. In addition to this, EFFP (2004b) emphasised that cooperatives could use “weight voting rights” in relation to trading through, if it is allowed by the rules of the society.

The Plunkett foundation (1992) maintained that if a society was going to be registered under the Industrial and Provident Societies Act, the Registrar needed to be satisfied that it was a bona fide cooperative.

Issert (1978) has stated that the cooperatives are incorporated bodies having limited liability. However, some “cooperatives” have been registered as Partnerships because they could not achieve all the requisites to become a cooperative under the two above laws, although production is cooperatively based. Unfortunately, each member has been made personally responsible for the debts of the group because they are under the partnership legislation. The area of activity has not been restricted by law, but the cooperative could delimit an area of influence, bearing in mind that a co operative always had to be careful of unlawful restriction in its dealings with members (Issert, 1978).

At least three members would be needed to form a co operative society (two if is a second tier or federative coop), but none of them could own a share value of more than £20,000. Also, each year they would have to send a report to the FSA to confirm that they ware operating according to cooperatives principles (Plunkett Foundation, 2004b). However, cooperatives formed as companies did not need minimum number of members, but there was a restriction on the movement of capital. Also, controls relating to cooperative principles are to be carried out by its members (Issert, 1978).

The Act of 1962 exempted agricultural cooperatives (that complied with: 90% of votes attached to shares were held by persons occupying land with agricultural or forestry purposes, cooperative principles were respected, and the main objective was to market members' produce or provide inputs for production) from the effect of the Restrictive Trade Practices Act 1956 (Issert, 1978).

The Act 1962, has laid down that a cooperative should act for the benefit of its farmer members. A cooperative which has been formed as a company was not protected by this Act unless the amount traded for non-members during three consecutives years was less than one third of the total traded by the cooperative (Plunkett Foundation, 1992).

Issert (1978) has stated that a co operative-society should distribute its surplus according to the utilization of the cooperative's services and that the capital should have a limited remuneration (supervised by the Registrar). In the case of a company cooperative, it would only apply if it were protected under the 1962 Act. "The return on capital raised through loans or shares must be limited to the rate necessary to raise and retain sufficient capital to enterprise's activities". However, the issue of shares to raise capital from non-members, was not allowed (Plunkett foundation, 2004b:59).

Some fundamental differences existed between the shares issued by a cooperative society, and those issued by a normal company. The main differences were: a) cooperative society's shares were redeemable subject to the rules of the coop, and b) cooperative society's shares were "usually" issued at a f ixed value, limiting the possibility of capital growth (Plunkett Foundation, 2004b).

It has been stipulated that a board of directors should run a cooperative society, and they should be members of that society. A general meeting is held annually, but a second one could be held at the end of the financial year. First tier cooperatives have applied the principle of one man one vote, however, in the case of second-tier-cooperatives (a cooperative of cooperatives) the voting system was more flexible, but it should be in proportion to the number of members in each cooperative (Issert, 1978). However, as mentioned earlier in this chapter, the first tier cooperatives allowed using weighted voting rights in proportion to the use of the cooperative, as long as this voting system was allowed by the rules of the society (EFFP, 2004b).

The fiscal status of cooperatives have been described by Issert (1978:110-111) as the same of commercial companies, except for:

a) The bonus (additional return on products marketed by cooperatives, or the rebate on the price of goods supplied by it) was deductible from the taxable profits of either a cooperative society or a cooperative company, but taxable as trading receipts in the hands of members.

b) Interest paid on members' shares or loans was also deductible at the level of the cooperative, though taxable in the hands of members as unearned income

c) Corporation tax is paid to cooperatives at a level of 40 %, rather than the rate of 42% for small companies.

However, it could be contrary to the International Cooperative principles, the legislation allowed cooperative societies to redistribute their residual assets to members for personal profit (Plunkett Foundation, 2004b). See table 5.5 for a list of strengths and weaknesses of cooperatives as Industrial and Provident Societies according to the Plunkett Foundation.

Table 5.5 Strengths and weaknesses of cooperatives registered as Industrial and Provident Societies

Strength	Weakness
• Rules are straightforward for members to understand • Difficult to change rules, safeguarding objectives and assets • Qualification loans from members • Dividends paid on loans • Cooperative ownership has encouraged customer loyalty • Cooperatives sometimes offered exemption from restrictive trade practices • Regimented structure focused on business strategy and encouraged performance management	• Took longer than a company to register • Annual return must be submitted to the FSA • Rules changes took time • Capital can only be raised by shares issued to members • Not recommended for capital intensive projects • Mainstream professional support services unlikely to be familiar with structure

Source: Plunkett Foundation (2004b), adapted

5.2 Summary

The many legal options outlined have indicated the different forms of FCBs, however, the cooperative model has been the most popular as the farm business of the member is benefited, and this has been perceived as the main purpose for joining a farmer controlled business. In the UK, a cooperative could be formed as a society under the Industrial and Provident Societies Act, or as a company under the Companies Acts. Since 2001, the Financial Service Authority has regulated cooperative societies. Cooperative societies are governed by its "rules" instead of a Memorandum and articles of association (required by Company laws). There was not a formal guidance on how, when or by whom these rules should be updated, therefore, these "model rules" were normally drafted by consultants.

In respect to the control of cooperative societies, the FSA recommend that it "should, in general, be one member one vote" based. Therefore, control would be normally exercised by each member having equal, or nearly equal, voting power. However, under English law weighted voting rights in relation to trading may be used by the cooperatives, if it is allowed by the rules of the society. Despite it could be contrary to the International Cooperative principles, the legislation allowed cooperative societies to redistribute their residual assets to members for personal profits.

<u>Contribution to the research objectives:</u> Chapter five illustrated that the law is more flexible than most people think regarding the requirements needed when forming a FCBs, showing that some of the most traditional features of the cooperative model (such as one member one vote), were not legal requisites, if not only recommendations done by cooperative consultants.

6. SELECTING APPROPIATE BUSINESS MODELS & STRUCTURES

Ultimately, there may be no l ong-term sustainable advantage than the ability to organise and manage.

-Jay Galbraith and Ed Lawler (Grant, 2002:187)

In order to make the most of the different economic situations, the business world has always have evolved and adapted to changes society. The evolution of the most common business models used by companies and corporations to organise their resources and access their markets in the most efficient and profitable way possible will be examined in this chapter. The new and emerging business models that have been evolving in the most dynamic sector of the economy, which in turn, will offer an indication of future demands, will be investigated in this section.

6.1 Traditional business models

6.1.1 Military organisations

It was only in the comparatively recent past that the history of business structures were established. The first "companies" or "enterprises" were created in the 19th century in order to organise the massive work of the railways companies. The people responsible for this challenge took the only model available, at that moment, to coordinate and control a large number of people: The Military Model. Possibly, this was one reason for similarities in business and military vocabulary. For example, a company is described normally, as a band of people engaged in some activity, as a small military unit, is referred to usually two or three platoons. From a business point of view, an "enterprise" is defined as a company organised for commercial purposes; and also as an organisation created to provide products and/or services to customers.

It is well accepted that the first book written about "Strategy" is the Sun Tzu's classic *The Art of War*, written about 500 BC.

"Military strategy and business strategy share a number of common concepts and principles, the most basic being the distinction between strategy and tactics. Strategy is the overall plan for deploying resources to establish a favourable position; a tactic is a scheme for a specific action. Where tactics are concerned with the manoeuvres necessary to win battles, strategy is concerned with winning the war" (Grant, 2005:14).

The organisational model chosen by the railway pioneers to develop their enterprises was considered the right one, because of the similarities between an Army and a Railway Company. Both organisations based their work on a large number of workers or soldiers who received orders and had to perform their jobs with not very much initiative or imagination. Also, in a world with very basic communication systems, hierarchies were used to play a very important role passing information between the two extremes of the pyramid. The military model was successfully applied during the industrial revolution, basically, because it allowed the control and the coordination of factors of production. However, nowadays, technology and economic social development have dramatically changed military organisations, transforming them in more flexible and less hierarchical companies.

6.1.2 Multinational organisations

During the first half of the 20th century, business organisations started to structure themselves in a different way, following the demands of the moment. Some companies were operating in different countries, and the political and economic environment had changed. The new reality needed a n ew structure, and the <u>multinational organisational model</u> was adopted for most companies during the pre-World War II period. This model allowed the decentralization of assets and capabilities to adjust the products of foreign operations to each national market. Because of the distribution of the resources and the delegation of responsibilities, this model may be described as a *decentralised federation* (Bartlett and Ghoshal, 1998).

This business structure is described as a decentralised federation because companies managed their worldwide operations as portfolios of national business. A management process defined by simple financial control systems overlaid on informal personal coordination, and a dominant strategic mentality was used by these companies (Bartlett and Ghoshal, 1998).

The multinational corporations were organised as national subsidiaries because of less developed transport and communication systems; the differences between markets were too big. Therefore, when communication and transport evolved, markets tended to resemble each other. The multinationals, then, tended to change their geographically based structures towards an organisation around worldwide product divisions (Grant, 2005).

Grant (2005) has maintained that the multidivisional structure, product-based, was a response to the coordination problems caused by the process of diversification. The most important characteristic of this divisionalised structure (geographically based or product based) was its capacity to decentralise the decision making process. Also, it was a model where the business-level strategies and the operating decisions could be made at the divisional level.

Bartlett and Ghoshal (1998) supported the same idea by saying that the most important strategic capability of the multinational model was its permanent contact with nationals markets and politics, thereby allowing the company to react very precisely. The multinational organisation was a clear example of adaptation, from geographical to product divisions, according the needs of the environment and combining world-wide scale with the flexibility to react to local needs.

6.1.3 International organisations

Following the Second World War, the organisation structures suffered another modification, and the international organisation model became predominant, especially, during the first few years after the war. At that time, differences between markets and barriers between countries began to erode. It was an opportunity to develop a model that allowed the companies to work in a more concentrated way. In this business model, the parent company was responsible for new products or ideas, although local subsidiaries were free to adapt them in response to the national market. With this new structure the emphasis was on the coordination and control between the headquarters and the regional organisations, and for this reason could be referred to as a *coordinated federation*. The most important strategic objective was the transfer of knowledge and expertise to the less developed environment (regarding technology and market) of the overseas headquarters (Bartlett and Ghoshal, 1998)

From a strategic management point of view, Grant (2005) attested that during the 1950s the dominant theme was the planning and control of budgets, and that financial management was the key factor for managers. In the 1960s it was all about corporate planning and planning growth, which saw the rise of planning departments. This trend was the consequence of the problems that the managers had to face in coordinating decisions and exercising control in large and complex companies were the problems which faced managers as a result of this trend.

The surrounding environment (cultural and historical) influenced the strategic capabilities of companies, and in the opinion of Bartlett and Ghoshal (1998) the international model was developed to prove a very effective structure to transfer knowledge and skills from the parent company to the local subsidiaries, thereby, adapting them effectively to local needs. Conversely, by the end of the 20th century the economic environment became very dynamic, resulting in the elimination of centralised planning departments and the transfer of knowledge turned into a two way route.

6.1.4 Global organisation

During the 1970s and early 1980s companies began to adopt the global organisation model in spite of the fact that this type of enterprise had been developed in the first half of the century by people such as Henry Ford and John Rockefeller. The idea was to produce standard products on a global scale, and then transport them to the rest of the world. All these activities were carefully planned and closely controlled by the central headquarters. Following trends of the previous decades, this model concentrated, even more resources and responsibilities.

With the centralisation of assets, the responsibilities of local units were on sales and service to customers. The subsidiaries were very important, in the global scheme because they were in contact with the local market and were, therefore, able to satisfy any political or economic problems. In comparison with the local units of previous models, these subsidiaries were really less independent in being able to modify products or even to design their own strategy, so this model has been described as a *centralised hub*. In global organisations the focus was in global markets as never before, so global managers had little understanding of local needs. Also, the lack of freedom at a national and regional level was increasing the gap between the parent company and local markets (Bartlett and Ghoshal, 1998).

In the area of strategic management, this was the moment when the dominant theme was to analyse the industry and the competition, and the main issues were to choose the markets and segments in which to position the company's products (Grant, 2005).

The organisation models were consequences of the combinations of economic, political and social forces at one specific moment. Therefore, in order to capture global scale efficiencies and to facilitate the development of coordinated strategies, the centralised hub organisation needed to see the world as a single economic entity and to have very controlled subsidiaries (Bartlett and Ghoshal, 1998).

6.1.5 Non-hierarchical coordination structures

Towards the end of the 20th century, the business environment became so complex and dynamic that it was no longer possible to identify a single organisational model as the most prevalent. Instead, it was a period when many models were applied or developed according to each particular circumstance.

The traditional models of organisation were authority-based, and these structured forms (hierarchical) were too rigid in dealing with the consequence of a new reality. Therefore, some companies experimented with alternatives administrative organisations. Grant (2005) identified them as non-hierarchical Coordination Structures (listed below):

- *Project based organisations*. This may be defined as a temporary organisation that worked in teams on specifics projects, meanwhile the company continued with its organisational structure, normally based in functional departments.
- *Adhocracies*. Normally formed by a group of specialists who are organised in an organic way. It could be referred to as an organisation which was innovation-orientated and was good at all kind of activities that involved problem-solving such as process reengineering and the development of new products. In order to achieve its objectives, groups of experts were valued for their capacities and expertise, and the work was completed in non-routine modes and there existed little exercise of authority. Adhocracies have been adopted in organisations such as research institutions, consulting groups and new product development groups.
- *Shamrock organisations*. This type of organisation has three "leafs". The first one was the professional core formed by integrated activities. The second "leaf" was

integrated by all the activities that could be contracted out of the organisation, these could be from payroll to distribution. In the third and final "leaf" was all the support operations of the core activities that were not strongly integrated, such as a temporary work force, and part time workers.

- *Honeycomb organisations…* These organisations have been identified as self-organised groups resembling beehives or ants' nests. They are complex systems and their dynamics have been analysed using complexity theory.

Some common characteristics may be seen in all these alternative organisation structures. Instead of concentrating on managerial control as a tool for ensuring co-operation, as traditional organisation models do, these new models put the emphasis on co-ordination and social control. In response to advances in information technology it was not necessary to rely on the hierarchy information flows because IT allowed a very efficient flow of information and communications. These non-hierarchical organisations were flexible and the co-ordination was very complex and, therefore, to assemble this in a productive way, the organisation required individuals to function in multiple organisational roles (Grant, 2005).

6.1.6 The integrated network

During the final decades of the 20th century the pressure on business to become more effective and innovative was increasing. As a result, many companies with different organisational structures started to change their framework towards the integrated network model. This structural framework has been adopted because it proved to be the way to achieve the strategic objectives (efficiency, responsiveness, and innovation) of companies formed by specialised units worldwide. The integrated network model is based in three key characteristics; dispersion, specialization and interdependence. Bartlett and Ghoshal (2005) describe these key features:

The *dispersion* of assets were crucial to the competitive conditions of the network, because new technological advances and competitive strategies could appear anywhere in the world. Also, it was very important to have more than one country as a base, in order to decrease the risk of unfriendly political, or economic changes.

The network has *specialized* units around the world, that could be arranged so that more than one unit could work simultaneously on the same problem or project, in order to create a healthy sense of international competition.

Traditionally, the units of the companies were not very integrated, and they were quite fragile in comparison with some competitors which worked on a g lobal scale. However, the network had the ability to take advantage of the local units and with <u>interdependent</u> relationships which characterise this model, to respond effectively to the global competitors, at a regional, national and international levels.

Based on these key elements, the integrated network was capable of arranging and rearranging its components in order to build the *flexile* worldwide company which is required nowadays. In the opinion of Bartlett and Ghoshal (2005), having specialised roles and responsibilities was the way to develop flexibility and to avoid the uniform treatment of subsidiaries, which has been the biggest barrier to adaptation.

Requirements for survival were based on access to international resources, worldwide market position and global scale. To be an industry leader it was essential to be market sensitive, to follow the technological trends and to exploit new ideas and products in a rapid and efficient way (Bartlett and Ghoshal, 1998).

6.2 Business structures

Business structures which have been widely used as part of business models will be described in this section of the chapter.

6.2.1 Vertical integration

The last decades of the 20th century have been characterised by a great number of acquisitions and mergers in order to gain global scale, market share, and control in the value chain. Consequently, many companies, have made substantial investments in vertical integration.

Hughes (1994:4) has said "*that vertical integration is the term used to describe the consecutive stages in a marketing chain when they come under one ownership*".

When administration costs within firms were less than the transactions cost of the market, the companies integrated vertically across the stages (Grant, 2002). Transaction costs may be identified as all the costs of negotiation, organisation, design of contracts, coordination of the logistics, control of the accounts and supervision of any transaction in the market place (Faulkner and de Rond, 2001).

A suitable definition has been supplied by Grant (2005: 393-394): "*Vertical Integration refers to a firm's ownership of vertically related activities. The greater the firm's ownership and control over successive stages of the value chain for its product, the greater its degree of vertical integration. The extent of vertical integration is indicated by the ratio of a firm's value added to its sales revenue*".

When a company owned and controlled the production of the inputs it would be possible to adopt <u>background integration</u>, and <u>forward integration</u> when the firm took ownership and control of its own customers. Also vertical integration may be classified as <u>full integration</u> or <u>partial integration</u>. To be fully integrated, the production of one stage would be transferred to the next one with no sales or purchases from the outside world, different from the partially integrated, where stages of production were not internally self-sufficient (Grant, 2005).

According to Rugman and D'Cruz (2001), vertical integration is adopted by firms there is a potential risk that their suppliers could monopolize an essential input, or its customers could develop decisive market power.

From Grant's analysis of a traditional consideration of vertical integration, technical economies (cost savings) may be obtained from the physical integration of processes, he was uncertain about the need for common ownership. Also, Grant (2005) has maintained that through collaborative relationships between specialised firms vertically related it was possible to achieve the same benefits as those enjoyed by vertical integration. In addition to this, the development of core competencies and flexibility could be promoted through vertical specialisation.

A wide variety of organisational forms have been established, in one extreme were the hierarchies and in the other, the market. It could be asserted that hierarchies were good choices when the specificity of assets was high, the consequences of opportunistic behaviour were unacceptable, or when the transactions were infrequent and uncertain. Under market conditions, all these situations were caused by high transaction costs. But, with no specific assets, a commodity frequently traded, the sources of supply not a problem, and the optimal allocation of resources achieved through market prices, then the hierarchy option would cause high transaction costs in comparison with transactions in the market (Faulkner and Johnson, 1992).

Many companies have chosen to form *Vertical Relationships* as a way to develop competitive advantages, such as <u>Long Term Contracts</u>, <u>Vendor Partnerships or Franchising</u>. In order to take advantage of the benefits of both, vertical integration and market transactions, the recent tend has been to adopt intermediate vertical relationships. <u>Networks</u> have permitted companies which wanted flexibility in respect to incentive structures, and close collaboration to be established. This model has allowed small firms to have the necessary scale to deal or even compete with large companies (Grant, 2002).

In the opinion of Rugman and D'Cruz (2001) a formal contract to avoid the opportunism of any member was unnecessary in a network competing globally. This was despite the sharing of market intelligence and intellectual property, because the close inter-firm organizational linkages were collaborative and long term in orientation.

Bartlett and Ghoshal (1989) have mentioned that some companies had integrated products and functional groups to collaborate and self-enforce interdependent relationships in order to achieve their own interests.

Possibly one of the most important strategic choices was to decide which part of the value chain was better to incorporate into the actual business. And in the opinion of Grant (2005) strategies of vertical integration were not simply make –or-buy choices.

6.2.2 Collaboration - Alliances and Partnerships

Business collaboration could be the easiest way of increasing the market power of any company, it would also be faster and cheaper than ongoing in mergers or acquisitions. The internal issues that could be solved through collaboration may be identified as: a) the need for specific assets or capabilities, b) the need to minimise costs, c) the need for speed to market, and c) the need to spread financial risk. Moreover, key external factors may be identified: a) issues of globalization or regionalization, b) turbulence and uncertainty of international markets, and c) financial support to cope with fast technological change (Faulkner and de Rond, 2001).

The increase of market power – buying or selling – has been identified by Hughes (1994) as the main reason for the formation of alliances. Added to this, Faulkner and Johnson (1992) have maintained that there were some external stimuli for strategic alliances. For example, they mentioned that alliances were the way to access the latest technology, to achieve the necessary scale of operation, to cope successfully with growing market turbulences and with the reduction of international trade barriers.

A partnership was an arrangement between two companies or organizations which were located somewhere in the middle between free market forces and vertical integration as the two extremes of the spectrum as was explained by Hughes (1994). He added that a partnership was freely entered into in order to facilitate the business objectives of both parties over a period of time, whilst keeping the operation and control of the two businesses independent.

On a scale of intermediate organisational forms between markets and hierarchies, strategic alliances were “next to” the first one. In a global market the need for scale has been identified as important for success as the need to organise resources and skills. Alliances could be the answer for many companies looking for the competitive advantage required nowadays.

Hughes (1994) emphasised the fact that in alliances companies remained independent, although, in some cases, cross-ownership of shares existed. Hughes (1994) has also said that in the food industry most partnerships are between successive stages of the supply chain, whilst alliances were normally between companies at the same stage.

In the opinion of Fearne and Dedman (1999) there were some general benefits which could be expected as a result of partnership arrangements in the fresh products sector:

- Improved market access
- Improved communications
- Higher profit margins
- Greater discipline
- Higher barriers to entry

It was attested by Hughes (1994) that in the food industry the reasons to establish alliances could also include accelerating the pace and lowering the cost of entering new markets, in addition to further sharing investments and technology in the development of new products.

6.2.2.1 Types of alliances

Faulkner and Johnson (1992) classified alliances into four different types:

Focused Alliances: alliances formed with a very specific objective; normally each company is related to only one activity.

Complex alliances: alliances formed in order to cooperate in the whole value chain; the idea was that the alliance was more competitive as a whole.

Joint Ventures: involved the establishment of a totally new firm with the partners as shareholders; the area of activity and the objectives would be specially agreed.

Consortium: a consortium may be recognised a l arge-scale alliance formed with a very specific objective, and the number of partners could vary.

Regarding the food industry, Hughes (1994) classified retail alliances into four different types:

Development-led alliances: alliances between two companies with the objective of jointly developing retail opportunities, such as mainly entering into new markets. In order to do so, the parties would work together in distribution, personnel training and sourcing of staff.

Purchasing –led alliances: the parties' objectives were to increase their purchasing power and to develop new product sourcing opportunities.

Skills-based alliances: alliances formed with the objective of exchanging information and knowledge.

Multi function alliances: alliances in order to work in "areas of opportunities": development of existing business; coordination of suppliers, promotional support and distribution; introduction and market testing of new products; standardisation of products and packaging; introduction of suppliers to new markets; development of merchandising and promotional material; coordination of own label development; material sourcing; assistance in production and distribution; optimisation of stock; management of temporary supply shortages and forums for retailer/supplier issues.

6.2.2.2 Requirements to form successful alliances

It has been discerned that one of the most important conditions for alliances survival was the strategic fit between its partners. In order to achieve this strategic fit, it is essential that the externals and internals circumstances remained favourable to the objectives of the chosen configuration. Also the alliance needed a g ood source of sustainable competitive advantage and an increasing level of interdependence among its members. In addition to this, the cultural fit between the partners has been the key requirement of a really successful alliance (Faulkner and Johnson, 1992).

Hughes (1994:201) in his book “Breaking with traditions” listed what he considered the twenty major factors which influenced successful establishment and sustained operations of partnerships and alliances. He summarised the whole concept of strategic alliances:

- Clear benefits for all partnership and alliance members
- Business proposition underpinning the partnership or alliance that makes long term commercial sense
- Focus on specific partnerships, products and markets
- Build upon successful partnerships, products and markets
- Apply lessons learnt from the partnership/alliance to gain benefits in other business areas for each partner

- Partner/alliance members should have a good strategic fit
- The commercial relationship should be based on interdependence
- Companies with similar corporate values and the same commercial ethos
- Mutual trust and respect
- Aim high – make it difficult for others to follow
- For junior partners: pick a senior partner with a long term commercial future
- Build relationships and communication links between all levels
- Gain full endorsement of the venture by the most senior management and strong personal commitment of all staff
- Members should hold a common view on the long term objectives of the partnership or alliances
- Partnership/alliances members should hold a common view of what the final consumer wants
- Raise the veil of secrecy and focus on sharing information required to make the partnership/alliance a success
- Investment in physical plant and, for horizontal alliances, joint investment, by alliance members build commitment to the venture.
- Build flexible organisations that meet the specific needs of each partnership or alliance.
- Fix problems as they arise – delays only serve to disrupt
- To ensure success, partnerships and alliances require their fair share of commercial good fortune.

6.2.2.3 The importance of company cultures in the formation of alliances

Right from the beginning of the process, the culture and goal compatibility should be exhibited through a friendly environment in order to built a strong partnership. It should be recognised that the maintenance of an alliance would be more difficult than its creation. Cultural fit might be described as the right attitude between the partners, and would be based on trust and commitment (Faulkner and Johnson, 1992). In support of this Nordstrom and Ridderstrale (2004) emphasised that collaboration always required trust. Trust was extremely important to make the most of new business structures based on information flows, in addition to avoiding contracts and monitoring costs.

The incorporation of the benefits of collaboration could be facilitated if the company was highly receptive to learning. To achieve this, the knowledge should be transferable and the partners should have transparency in knowledge communication. The capacity to acquire, disseminate, and retain new knowledge is known as organizational learning. This process was more powerful when the partners had different sets of capabilities and experiences. Overall, the objective was to show a positive evolution over time (Faulkner and de Rond, 2001).

Collaborative alliances normally promoted internal competition in the learning process between partners. As a r esult of the different learning capacities one of the companies could take advantage and affect the competitive positions of the firms, also the stability of the alliance could be threatened (Nti and Kumar, 2001).

The selection process of the partner or partners was of the paramount importance in order to form a successful alliance. Complementary strategy and resources would be essential, but there was also a risk of immoral behaviour, because any opportunistic behaviour of one partner could signify the end of the alliance (Tallman, 2001).

6.2.2.4 The management of alliances

"Managerial assets" would be responsible for the learning capacity and for the coordination of the physical and human resources, consequently, they may be seen as the principal source of competitive advantage. Sherman found that personal relationships between managers were the principal cause of failure between joint ventures (Tallman, 2001).

The integration of cultures, the leadership and the administrative systems were dependent of the management's capabilities to generate them (Loveridge, 2001).

The great synergies that could arise from a good cooperation would be threatened if the managers were not preparing for a constant process of creation and recreation. Also the idea of innovation should be present during the whole cooperation process because it would be almost impossible to succeed if the parts involved are not ready to embrace the continuous change (Tallman, 2001).

6.2.2.5 Organising business structures

"*The structure of the organisation can be defined simply as the ways in which labour is divided into distinct task and coordination is achieved among these tasks".*

Henry Mintzberg (Grant, 2002:192)

The formation of firms has proven to be an effective way to organise economic activities. Within the firms, the specialization of labour into different tasks may be viewed as an important source of efficiency; therefore, the coordination of these activities may be considered essential to the results of any organisation. Hierarchical structures could only be seen as efficient and successful when the competitive advantages are given in a stable world with predictable changes. In this kind of environment efficiency may be achieved by people working narrowly defined jobs defined by repetition. Because the surrounding conditions were well known there would be no need for interaction once the "ultimate solution" has been found (Ridderstrale and Nordstrom, 2004).

In the opinion of Grant (2002), the organisational form of a company may be seen to go from a mechanistic structure at one extreme, to an organic structure at the opposite extreme. Indeed, some activities of a firm were better performed in mechanistic environments, such as taxation, purchasing activities, treasury, payroll and customer service; while other kind activities normally were of a more organic structure (e.g. new product development, marketing and research) (Grant, 2002).

When markets were under-developed, it made sense for companies to keep many parts of their business "in-house", however, in more efficient markets, integrated companies do not make the most of the economic environment because in many cases it would be better to outsource (Ridderstrale and Nordstrom, 2004).

A view point of Volberda (1998) stated that a mechanical structure was really less flexible because of its extensive process of regulation, and its complex planning and control systems. Alternatively, an organic structure had rudimentary planning and control systems, limited regulations and a basic organizational form; consequently, the potential for flexibility was higher.

A common problem among collaborative organizations has been that the search for the structural fit has been concentrated in the formal structure, therefore has been very difficult to capture the complex strategies needed in a global company. At present, the environment is viewed as dynamic and formal structures were more concentrated on static roles, responsibilities and relationships (Bartlett and Ghoshal, 1989).

Also embracing the complexity of today's economic environment, Ridderstrale and Nordstrom (2004) have highlighted the theory that the structure should be only the facilitator of what was really important for the success of any business: the business model. This business model also should be well executed, have some grade of exclusivity, and being very flexible.

In order to increase its organisational capabilities a company should develop a flexible structure. To do so, the decision-making systems should be modified in a more adaptable way. As a result, many managers agreed that the most important challenge was to develop sources of competitive advantages, and that these sources should be flexible and complementary, instead of employing traditional strategy capabilities to satisfy a particular situation of the business environment. Thus, because of the dynamic environment, the formal structure was perceived as less important, and future success was dependent on the capabilities to build flexible organisations with adaptable strategies (Bartlett and Ghoshal, 1989).

6.3 Alternative business models

The alternative business models are described as the most recent, or even futuristic, alternatives chosen by successful organizations to compete in the 21^{st} century economic environment. Despite that these models were not an exact characterization of a particular company; they may be viewed as a compilation of desired features based on successful business examples done by world authorities on this subject.

6.3.1 The flagship firm model: J.R. R'Cruz and A.M. Rugman (1992)

The Flagship Firm model was also known as the "Five partners" model of business networks. The flagship firm would be seen as the leader and responsible mainly for the strategy of the network as a whole. The model is called the Five partners because in addition to the flagship firm, normally a multinational company, the network is integrated with key suppliers, key customers, competitors and some non-business organization (i.e.: services, education, unions) (Rugman and D'Cruz, 2001).

In the opinion of Faulkner and de Rond (2001) the flagship firm influenced the strategies of its network partners, known as strategy asymmetry, because it was not a two way process. Increased volume of sales, brand image of the flagship firm and access to new technology are seen as the benefits for the partner. As a result of this asymmetry, the flagship firm had the global perspective and resources to develop the organization's mechanism with the aim of achieving the strategic objectives of the network (Rugman and D'Cruz, 2001).

The more advanced networks have included non-business organizations as partners. Their function was to be the suppliers of intangibles inputs, to increase the intellectual property and human capital of the rest of the network (Rugman and D'Cruz, 2001).

This model was created by the Japanese under the name of vertical *keiretsu* and has been very successful in areas such as customers' electronics, automobiles, and computers. A difference of the traditional *keiretsu*, was that was not a family company diversified around a bank or a trading firm (Rugman and D'Cruz, 2001).

6.3.2 The Virtual Corporation: Davidow W.H and Malone M.S. (1992)

" The warehouse-size computer of 1945 can now be found in your digital watch-on a silicon chip the size of a baby's fingernail." Davidow and Malone (1992:2)

A virtual corporation would be able to satisfy customers' needs instantaneously and with tailored virtual products (services included), producing mass-customized goods and services in a profitable way. In this new era, the keys to effectiveness would be the flexibility and the responsiveness to a customer's wants. These characteristics will bring the synergy to make the company more powerful than the sum of its components, and the ability to produce virtual products (Davidow and Malone, 1992).

Benjamin Coriat cited by Davidow and Malone expressed the importance of changing ways of thinking. He said that the companies should "think in reverse", starting from the customer needs and then structures should be designed to satisfy them. The virtual corporation could be so radical, that we should need different frameworks to understand its essence. It would demand a different kind of social contract, higher levels of general education and unbelievable levels of trust among the stakeholders (Davidow and Malone, 1992).

According to Davidow and Malone the key to success of the virtual corporation would be in the capacity to gather and integrate massive amounts of information into its components for them to be used in the most effective way. The information could be classified into different types: a) <u>content information</u> would be always historically (orders, inventory, etc), b) <u>form information</u> would allow prediction of the future using information to simulate known scenarios, and c) in the use of <u>action information</u> it would be possible to produce virtual products in automated factories because all the information types would be employed to work together (Davidow and Malone, 1992).

6.3.3 The Flexible Firm: Henk W. Volberda (1998)

To be successful in the 1950s and 1960s the goal was to have efficient operations in order to decrease the cost of production. In the 1970s quality appeared as the new requisite of excellence to satisfy consumers' requirements. At present, flexibility may be perceived as the vital capability needed to survive, because low cost and high quality would not be sufficient (Volberda, 1998).

A flexible company would have to have options in order to be adoptable and to do so it would need a flexible configuration of resources to be able to respond effectively to unpredictable changes in the opinion of the author. Organizational flexibility would be a strategic asset. It would also be very important to have a flexible mental approach to interpret the changing world. Flexibility would be a stimulus to entrepreneurial and innovative activities.

Eppink (cited by Volveda, 1998) has defined three different levels of flexibility:

- *Operational flexibility*: normally to represent a ch ange in the level of some activity, and should not effect the relationship with the environment.
- *Competitive flexibility*: a r eaction to changes in the environment resulting in a modification to the market position of the company.
- *Strategic flexibility*: Needed to face very unfamiliar and urgent changes which originated in the environment. Examples of these types of changes could be radically new technology, oil crises, wars, et cetera.

6.3.4 The Funky Inc.: Nordstrom, K and Ridderstrale, J (2002)

Nordstrom and Ridderstrale (2002:153) supported the notion that in order to be really successful, business should go beyond adaptation to the economic environment, they suggested, "success comes from shaping the future. Success is about creation, not adaptation". They described companies which have managed to shape the future and called them "Funky Inc". The Funky Inc was: 1) Focused, 2) Leveraged, 3) Innovative, and 4) Heterarchical

Focused: Nordstrom and Ridderstrale (2002) have stated that the world was in general, oversupplied with average products and that most companies were trying to do everything for everyone, instead the Funky Inc would become something special for someone in particular.

Leveraged: *Internal leveraged*: the idea would be to develop a learning organization capable of transfering knowledge into action quicker than the competence. *Industrial leveraged*: based in core competences the Funk Inc could enter into new industries. *International leverage*: Funky Inc would not be large, but would be global, building administrative structures and systems in order to create the right attitude to make the most of a globalised economy.

Innovative: Companies should embrace innovation in every single area of the business. Reinventing strategies would prove innovative, Innovation through speed, Innovation through smartness, and both ignoring and listening to customers.

"Do not expect too much innovation at companies where 90 percent of the employees are the same gender, about the same age, have a similar educational background, dress the same way, and all play golf. Even if they go on annual strategy conferences to the Mediterranean or the Alps to be really creative, wild, and crazy, do not expect a great deal." Nordstrom and Ridderstrale (2002:188-189)

Heterarchical: Companies should be capable of combining and recombining knowledge across any kind of borders. Generally these companies may be viewed as: *Small, Flat, Temporary (*each person has many jobs because they work in groups and projects), *Horizontal (*working in processes, instead of divisions), *Circular (*sharing a common language), *Open* (alliances, partnerships, supply chain would be the unit of analysis), *Measured* (more things, multiple levels and greater frequency).

Nordstrom and Ridderstrale (2002) have maintained that the key factor to be a successful company would be not to compete; instead, companies should promote continual change and being different.

6.4 Summary

The history of business structures began in the recent past. The first "companies" or "enterprises" were created in the 19th century in order to organise the massive work of the railway companies. The people responsible for this challenge took the only model available at that moment to coordinate and control a large number of people: the military model.

During the first half of the 20th century, business organisations started to structure themselves in a d ifferent way. The new reality needed a new structure, and the multinational organisational model was adopted for most companies during the pre-Second World War period.

After the Second World War, organisation structures underwent another modification, and the international organisation model became predominant, especially during the first years after the war.

During the 70s and early 80s companies started to adopt the global organisation model despite the fact that this type of enterprise had been developed in the first half of the century by people such as Henry Ford and John Rockefeller. The idea was to produce standard products on a global scale, and then to transport them to the market.

Towards the end of the 20th century the business environment became so complex and dynamic that it was no longer possible to identify a single organisational model as the most adopted. The traditional models of organisation were authority-based, and these structured forms (hierarchical) were too rigid in dealing with the new reality.

Therefore, some companies experimented with alternative administrative organisations identified as non-hierarchical coordination structures.

At the end of the 20th century the pressure on business to become more effective and innovative was increasing. As a result, many companies changed their framework towards the integrated network model to achieve the strategic objectives (efficiency, responsiveness, and innovation) of companies formed by specialised units worldwide.

Business collaboration could be the easiest way of increasing the market power of any company and also it would be faster and cheaper than mergers or acquisitions. The internal issues which could be solved through collaboration would be: a) the need for specific assets or capabilities, b) the need to minimize costs, c) the need for speed to market, and c) the need to spread financial risk. Also, key external factors as: a) issues of globalization or regionalization, b) turbulence and uncertainty of international markets, and c) financial support to cope with fast technological change.

One of the most important conditions for alliances' survival has been described as the strategic fit between its partners. In order to achieve this strategic fit, it would be essential for the external and internal circumstances to remain favourable to the objectives of the chosen configuration. Also, the alliance needed a good source of sustainable competitive advantage and an increasing level of interdependence among its members. In addition to this, the cultural fit between the partners has been as the key requirement of a really successful alliance.

The new business models should not be viewed as an exact characterization of a particularly company, they have been described as a compilation of desired features based on successful business examples: a) the flagship firm would normally be a multinational company, with a close network of key suppliers, customers, competitors and some non-business organization (i.e. services, education and unions). b) the virtual corporation would be able to satisfy customers' needs instantaneously and with tailored virtual products, producing mass-customized goods and services in a profitable way, gathering and integrating massive amounts of information into its components. c) the flexible firm would be adaptable with a flexible configuration of resources to be able to respond effectively to unpredictable changes. Organizational flexibility would be seen as a strategic asset. d) the funky Inc. is viewed successful because it differed from the rest and managed to shape the future by being focused, innovative, leveraged and heterarchical.

Contribution to the research objectives: the main contribution of this chapter was the illustration of how the business structures have been adapted over the years and how they have been changing to face future challenges. This chapter emphasised the importance of economic scale and organisational flexibility to succeed in today's business environment. Unfortunately, UK FCBs lack both key characteristics, therefore, any new collaborative business model should at least bring or promote one of these sources of strategic advantages.

7. SOCIOECONOMIC ENVIRONMENT AND CHALLENGES AHEAD

The previous chapter examined the evolution of business models and how they have adapted in order to better suit the changes in the socio-economic environment. Also, at the end of chapter 6, there was a brief description of what are considered to be the desired characteristics of new business models for the 21st century. Following the same idea and to understand today's socio-economic environment and the challenges ahead, the realities facing the farming industry in the future will be investigated in chapter 7. In Chapter 7, it is intended to set the framework in which this research took place, and it is considered paramount to understand the type of research followed (more details in chapter 8, "Methodology").

7.1 Globalisation

Fulton (2000) has attested that globalisation has increased both the rate and the nature of social and economic change, through rapid advances in technologies, the decline of the nation-state and its consequent borders, the fluid movement of goods and people and the blending of cultures. Globalisation has:

- Changed the role of government: reducing the boundaries between states as well as increasing environmental, health and food safety regulations
- Changed consumers' culture: differentiated products with attributes (GMO, organics, low fat) and ethnic food.
- Rapid changes in technology: production, processed, and distribution

Thompson (2001) pointed out that all the changes have had significant effects on all the participants in the supply chain. The retailers have had to cut costs down to compete internationally, and this can be done only with the help of their suppliers, building much stronger and long-term relations.

Some of the responses to those changes have been an increase in vertical coordination (contract or ownership) to allow a better regulation of the quality and the quantity needed to satisfy specific markets as well as for controlling costs (Fulton, 2000).

Sykuta (2001) also emphasised that the agri-food systems demanded greater coordination among the different participants at every level of the supply chain. Owing to the existence of a great variety of farming businesses, Farmer Controlled Businesses (FCB) should have a big role in coordinating the supply of produce.

A clear concentration of global corporate power has been highlighted by MacLeod (2004). He maintained that thirty percent of the assets in the world were under the control of 200 corporations, therefore, he suggested that the cooperative movement could be developed as an alternative in order to provide a counter weight the power of corporations.

Thomson (2001) forecasted that the retail markets would become more concentrated and would have more control over the supply chain. Therefore, the pressure would be increased to establish long-term relationships with both direct suppliers and raw materials suppliers. Consequently, Thomson (2001) predicted that there were very good opportunities for well organised, market orientated and adequate size producers that could satisfy the needs for price, quality, marketing support and volume.

In the UK, English Food and Farming Partnerships (EFFP) (2006) have emphasised that it was clear that the competition would be between global supply chains and not within each of the supply chains, thereby opening opportunities for world class FCBs. For that reason, EFFP suggested that English FCBs should change to a more global market driven mindset in order to exploit international market opportunities.

Following a similar line of thought Thompson (2001) suggested that the only way for producers to obtain a preferred supplier status was by forming marketing groups with the capacity to offer high quality and consistent products. To do so, cooperation would be paramount to ensure an outstanding supply chain management and the profitability required for all participants.

Fulton and Gibbings (2000) opined that globalisation and an industrialised agriculture were very related. Globalisation has increased social economic changes, affecting the role of governments regarding agriculture by increasing their regulations on environment, health and food safety. Furthermore, consumers have widened their demands for different products. Moreover changes in technology have affected the way food is produced, processed and distributed.

7.2 International food market

Thompson (2006) predicted that, in order to increase food productivity, the low productivity concept of "small is beautiful" was a formula for disaster. Thompson (2006) also pointed out that the development of agriculture in Less Developed Countries (LDCs) was affected by both their own policies as well as global trading environments. Regarding LDCs' policies the author has identified: a) cheap food policies to satisfy urban consumers has made the adoption of improved technologies more difficult, b) under-investment in rural infrastructure, education and health, c) corruption and macro economic instability. Regarding global trading, he identified: a) countries members of the Organization for Economic Cooperation and Development (OECD) protectionist barriers to LDC products, b) OECD agricultural production and exports subsidies, c) Food aid was most available in the years of OECD surplus, not LDC deficit. Therefore, Thompson (2006) highlighted what LDCs need from OECD countries:

- Market access
- Elimination of exports subsidies
- Support for agricultured development
- Foreign aid and lending for rural investment
- Foreign direct investment

7.3 Number of farmers in the UK

In an analysis of the data from Defra, EFFP (2005b) reported that the number of dairy holdings had fallen by 46% between 1985 and 2003, similar to the number of general cropping holdings, which had fallen by 37%. Mixed holdings numbers have fallen by 19% and pig and poultry farms by 9%. On the other hand, the total numbers of horticultural holdings have doubled during the same period mainly owing to the growth in ornamental production. The total number of farms in England has decreased by 17% between 1985 and 2003, and almost half of this decrease has been since 2000, representing a loss of more than five farm holdings per day between 2000 and 2003.

It is considered important to point out that the figures analysed by EFFP did not include farm holdings with less than eight ESU. “One ESU is defined as 1,200 Euros (previously European Currency Units) of standard gross margin. It is a measure of the economic size of holdings in terms of the value they add to variable inputs and thus differs from physical measures, such as area, which take no account of the intensity or quality of production” (EEFP, 2005b:19).

Having taken this into consideration, EFFP (2005b) has said that the number of small holdings has increased 211% since 1990, especially in the South West of England, thereby reflecting the trend of urban-rural migration and the separation between land and houses that it brought with it. As a co nsequence, the average size of a farm in England has increased. EFFP (2005b) supported this fact by stating that a previous analysis of AiUK (2005) has reported that the percentage of total crop and grass land farmed by the largest farms had increased by 3.8% since 1998, to reach 56.9 % in 2003.

In an analysis of the average farm size between 1997 and 2004, EFFP (2005b) emphasised the significant increase in dairy farms, from 80ha in 1997 to 153ha in 2004, as well as in cereal farms, from 166ha to 232ha. Conversely, the average size of a cattle and sheep farm has decreased from 204ha to 165ha for a LFA, nevertheless it has been kept unchanged for cattle and sheep farms in the low lands.

In respect to dairy herds, Leaver (2006) reported that the number of herds would decrease to about 15,000 by 2008, and this fall would be concentrated mainly in small farms (See table 7.1).

Table 7.1: Number and size of dairy herds

Herd size (cows)	% decline 1999/00 to 2007/08
Under 40	44
40-69	36
70-99	18
100-149	10
Over 150	2

Source: Lever (2005), verbatim

The number of farmers was rapidly diminishing all over the world and this trend would continue. One of the reasons for this was that farmers still relied too much on independent relations with their customers (buyers, intermediaries, processors, et cetera) (Thomson, 2001).

7.4 Trends in UK agriculture

Amongst others, EFFP's (2005b) report about the long-term trends affecting the farming industry in England, predicted:

- Increased use of contracting services/machinery services
- Larger dairy herds and more specialised
- Increase in large scale yard base lowland finishing units
- Extensification of the uplands
- Loss of export subsidies and increasing pressure to cost-price squeeze on milk
- Oil prices would significantly affect farm costs
- Shorter and more collaborative supply chains would increase the opportunities for farmers to add value in consolidating the food supply chain

- Collaboration would allow farmers to take a bigger share of processing
- Food miles would make UK companies to look for more local products
- Food services companies would start to look for more overseas suppliers
- The market would increasingly dictate the conditions of production
- Farmers would specialise in large-scale and intensive agricultural production

London Economics (2004:93-94) investigated the main determinants of the farm – retail price spread and concluded that:

- UK farm gate-retail price spreads are generally not among the highest in the EU Member States
- The results suggested that, overall and for the period covered by the analysis, concentration in the retail domestic market did not seem to have had a significant impact in the evolution of spreads
- The sterling/euro exchange rate and costs in the supply chain, appeared to increase retail farm spreads in most commodity groups, … therefore, this would suggest that UK farm products are subject to significant competition from countries inside the Euro area

Banham (2004) stated that the key factors in determining success in the UK processing sector were: a) management focused in finding sources of sustainable advantages, b) strong brands, c) high quality assets, d) outstanding people, and e) partnerships with key suppliers.

7.5 Market differentiation

Hampson (2006) reported that owing to the fact that even the most cost effective UK farmers might not be able to compete with the low-cost imports on price alone, he suggested that market differentiation would be the way forward to keep farmers' viability in a globalised market.

Kyriakopolous and van Bekkum (1999) said that because food consumption was going to be increasingly influenced by a demand for more variety, there should be a greater focus on: convenience foods, ethnic foods, regional foods, food safety, health concerns, environmental concerns and animal welfare

Previous consumer research concluded by IGD and McKinsey found that 58% of the UK population were "foodies" (people who enjoy food as an experience, therefore they appreciate traits such as extra quality and variety) and not "fuelies" (people who main concern is to feed their families, therefore they are price driven and less interested in traits such as provenance). Furthermore, Hampson (2006) reported that while 89% of the public believed British food should be widely available, only less than 20% would buy it if it is more expensive. Research done by Waitrose found that despite 81% of the public considered food miles an important issue, only a quarter looked for country of origin when making a purchase decision.

It was attested by Hulmond and Fulton (1999) that as agriculture became more controllable and commercialised, the structure of the industry would also change to make the most of the specialised products replacing traditional commodities.

The Hampson's (2006) report also underlined the need for environmentally friendly produce to be marketed in such a way to satisfy consumer core concerns about price and quality. But the main conclusion of the report was the identification of "local food" as an important way forward for British Agriculture, because such food had a broader appeal beyond a dedicated minority of ethical shoppers, given the existence of clear benefits to the consumer, in terms of freshness, taste, and price.

Banham (2004) maintained that 40% of all food consumed in Britain was eaten outside the home, and this has been reflected in the fantastic growth of the food service sector. Also, he pointed out a significant increase in sales of freshly prepared foods in grocery supermarkets.

Hampson (2006) mentioned an IGD report that suggested that the dominant reason for consumers to buy local food was freshness owing to the shorter distances travelled, thereby suggesting that local food may be associated strongly with quality produce.

7.6 Barriers for the growth of FCBs

Hampson (2005) identified barriers that producers would have to tackle if they wished to make the most of the "local food" niche market: high costs, scale of the business and lack of basic business and financial skills.

Torgerson (2004) argued that direct payments to farmers have acted as incentives to increase farm size, but also served as a barrier to organize farmers together in order to increase their income from the market. In other words, farmers traditionally have relied on government support as their major source of income thus isolating themselves from market forces.

Royer (1995) has stated that vertical coordination was necessary to link consumer and processors' preferences with the production processes. However, the author would argue that often cooperatives lacked the capital power to invest in research and development owing to their limitations, such as: the difficulties of raising capital, and the unpredictability of the product supplied.

Reinforcing a similar idea, Nilsson and Petersen (2000) have said that the traditional model of cooperation have the strength to manage large volumes of not highly processed products in large markets. However, the traditional model of cooperation had serious difficulties when dealing with differentiated products in segmented consumer markets.

O'Connor and Thomson (2001) also suggested that traditional cooperatives should change in order to remain competitive, and they listed some of the problems of the traditional coops:

- Most were small and acted locally
- Not really efficient using capital
- Commodity orientated
- Protected from competition
- More flexible standards regarding corporate governance
- Lower average salaries at senior level

In her research concerning cooperation in the UK red meat sector, Bowles (2004) attested that the different social economic environment that was affecting UK farming, in comparison with the economic environment at the times when agricultural cooperation started and developed in mainland Europe, required different cooperative models to be able to achieve significant scale of operations in the short term.

To gain more value for farmers, FCBs should change from a defensive cooperative model to a more offensive and risk-orientated model, which would have to be able to attract investments. The traditional model of cooperation had its limitations to raise capital from non-members; therefore there was a need for new models more attractive to external investors (EFFP, 2006b).

O'Connor and Thomson (2001) also supported the notion that in general traditional cooperatives were limited by their structures, therefore, they should concentrate their efforts on redesign of their organisation, governance and control methods.

Holmstrom (1999) maintained that it was difficult to predict the future development of cooperatives because the model could be modified and adjusted to a great extent. For example, the requirements for entry or exit could be changed in accordance with the need for mobility, acceptance of external investors could allow the entrance of capital; and voting rights could be adapted to a different capital structure. In summation of his view, Holmstrom (1999) attested that the governance of cooperatives could be changed in so many ways that most of options had not yet been tried.

Kyriakopolus and van Bekkum (1999:6)

Goldsmith (2004) maintained that traditional cooperatives needed to be adapted to the post-modern business environment.

Thelwell (2004) argued that fragmentation at production level was the main barrier for UK farmers to gain more economic and political power. Therefore, collaboration was the only way to gain the required scale to influence the market, and to do so, farmers would have to compromise some of their individual freedoms and start to invest in their market beyond the farm gate in order to change from production orientated operations to market led ones.

7.7 The need for a different mindset in the UK supply chain

The message has been clear: to achieve real benefits, a need for a change in the mindset of all businesses involved in the UK supply chain existed (English Food & Farming Partnerships, 2006b). British farming had to approach the new political and market developments with an open mind to experiment new alternatives (Askew, 2006).

Askew (2006) predicted that in the near future, British farming would focus its production in: a) specialities with added value products, and b) commodity production under very strict cost control and perhaps business restructuring.

Jack and Jones (2006) supported the idea that a more accurate cost analysis was fundamental in the actual economic context for farm business planning. Owing to the decoupling of subsidies from production and the changes in the traditional cost structures, it would be very reasonable to make more use of alternative methods of cost analysis such as relevant costing and target costing. A strategic management thinking approach would be more suited to these methods and would be more appropriate in a supply chain and customer orientated business.

Askew (2006) emphasised the need for lateral thinking in order to develop better supply chain market structures and improved technical and economic management systems at farm levels.

Albisser and Lehmann (2006) said that previous studies have shown that structural changes at farmers level did not depend only on economic forces; change was also effected by social and psychological factors. This supported what O'Connor and Thompson (2001) maintained: some changes in cooperatives may be required in a super competitive business environment that would compromise their traditional ideas, but that could be the only way to survive.

It was evident that a desperate need for innovation existed in the marketplace. Unfortunately, cooperatives were at a disadvantage in respect to IOF regarding innovation, mainly because of the lack of incentives among traditional members to invest in these kind of activities, contributing to the unattractiveness for external investors, as well as the lack of a mechanism that rewarded innovation among the management structure (Holmstrom, 1999).

Additionally, Holmlund and Fulton (1999) pointed out that farmers should change their traditional view of being independent. Instead, they should use alliances and partnerships to maintain their independency in a much broader sense. They could join with other independent organizations to set up a larger, more profitable entity.

In respect to UK farming, Bowles (2004) suggested that the focus should be on opportunities, which could benefit the whole supply chain, and then, farmers could work in collaboration to satisfy those demands. However, to become an industrial business supplier with the focus on the customer, instead of being a commodity producer focused on production, FCBs needed an adequate business structure (Goldsmith, 2004).

Day (1999) pointed out that to have a perfect market-driven organisation all its activities should be integrated and aligned to deliver real value to customers. However, to achieve this objective, the right balance should be found between: Flexibility versus scale, innovation versus consistency, coordination and information sharing versus unproductive activities.

The right structure would not ensure market driven performances, but the wrong structure could totally stop growth even if all the other factors for success were in place. At present, the most effective models were hybrid structures based on horizontal processes with vertical functional strength that brought the required fluidity to decentralise the decisions-making processes by using widely-dispersed and shared information (Day, 1999).

Ridderstrale and Nordstrom (2004:185)

7.8 The need for investment

Dependency on subsidies would be a recipe for disaster. The best growth strategy would be to be better than any competitor. Therefore, offering unique products and services which would remove your competition. The right people should be recruited to be more profitable, further products should be differentiated, because is the responsibilities of individuals to make their own mark in the industry (Wanstall, 2006).

Goldsmith (2004) maintained that the only way for producers to obtain premium prices would be to reorganise themselves into new organizational forms and to create value in a unique way not seen previously in the marketplace. To achieve this, Goldsmith (2004) highlighted the importance of identifying the core competences and the tacit knowledge of the organization. He mentioned that in dynamic and changing industries these competences were: human capital, shared knowledge, organisation's history, communication network and tradition, organisational structure and collective learning; and not the accumulation of physical assets. Regarding tacit knowledge, Goldsmish (2004) said that most of the knowledge required for successful decision-making was not explicit, it is made up of unique experiences gained over time and through interactions that could not be replicated by formal rules. As a result of this, Goldsmish (2004) emphased the need to acquire tacit knowledge in addition to the physical assets in order to succeed and to create value in the participation in other kinds of business (such as, going from production to processing).

Thomson (2001) maintained that there was no doubt that the future of the food supply chain lay in the cooperation amongst partners to ensure profitable returns to all participants. To achieve a profitable supply chain agribusiness organizations would have to: identify new consumers, new usages for existing products, investigate possibilities for diversification, for new distribution channels and invest in branding.

EFFP (2006b) agreed with Cook (2006) in that intellectual property would be an important way to add value, therefore FCBs should focus more on this topics and should invest in R&D because FCBs would be rewarded in the future.

Following a similar idea Goldsmith and Gow (2005) recommended investing in soft knowledge such as market reconnaissance and marketing expertise, as well as by gaining tacit resources through customer relations in order to generate value in the initial stages and to remain flexible to changes in market conditions.

The leading companies of the late nineteenth and early twentieth centuries made significant internal investments to influence the marketplace, rather than by allowing other companies to lead the way. Chesbrough and Teece (1996) suggested that companies ready to commit the required capital to promote innovation would be the shapers of their specific industry in the twenty-first century.

Hanson (2004) highlighted that the new business models would have to be capital intensive in order to gain market share and economic scale. As an example of this new business model, the author has identified the "Wyoming Processing Cooperative" which allowed non-members' investments, the division of profits related in patronage to the members and in proportion to investment to non-members, whilst keeping a weighted control system that allowed farmer-members to stay in control.

Ridderstrale and Nordstrom (2004: 207)

7.9 Improving communication between the UK farming industry and the UK consumer

It has been alleged that the general public have not understood farming methods owing to the failure of the farming community to communicate the right message. This was something that the organic farming sector has been good at (Wanstall, 2006).

Fairbairn (2004) has emphasised the interrelationship between cooperatives and their society. Because coops were the reflection of the society they were in, members and leaders should first understand the wider socio-economic environment.

Franks (2005) has pointed out the importance of Environmental Cooperatives (EC) in the Netherlands. EC may be described as local organizations with farmers and non-farmer members who worked with the local and national authorities to integrate nature management into farming practices. EC focussed on many different topics such as reducing negative externalities from farming, collaboration over water management, contamination, and waste. Franks (2005) concluded that EC clearly contributed to the development of the rural economy with significant benefits for all the parties involved.

The cooperative model was the only business model which rewarded its users, therefore, their development would be promoted by governments (Hanson, 2004). Waner (no date) highlighted the importance of local economic development as an important factor which influenced decisions for capital investments by local organizations and financial institutions. Kiriakopoulos (1998) mentioned that vertical integration required a different organizational culture: more market orientation would identify the primacy of the customer first.

The Institute of Grocery Distribution (IGD) (2005) in a survey entitled "Connecting Consumers with Farming and Farm Produce" concluded that the consumer must be given better reasons to buy British food rather than the fact that it was British. Stimuli needed to persuade consumers would be: seasonality, heritage and the countryside. In addition to the fact that most of consumers would like to buy more British food, 70% expected to find it in the major supermarkets. Furthermore, Bowles (2004) suggested that the trend of developing regional brands based mainly on provenance was not good enough, and UK farmers should be also developing production protocols based on high quality production processes in order to develop a truly differentiated product deserving of a premium price.

IGD (2005) also put forward that British food should be marketed for “taste”, “health”, “appearance” or “convenience”, but the most important factor should be the education of the next generation in understanding farming and its effect on their lives.

7.10 Recommendations for UK FCBs

7.10.1 Strategies that could be followed

Two basic strategic choices are faced by most organizations: a) to improve productivity, and b) to take advantage of market opportunities. Traditionally, FCBs have been trying to increase efficiency and to reduce costs, because the market has been quite stable and fully competitive. However, in more dynamic markets, production orientated strategies were no longer viable because the secure market had disappeared and more efficient competitors emerged. Thus, the key to succeed would be in the understanding of core competencies and matching them to the market perspectives in order to create value addressing clients’ needs and opportunities (Goldsmith, 2004).

In the opinion of Fulton and Gibbings (2000) the key to success for producers would be to become closer to the centres of power, such as companies dedicated to genetic improvement of plants or animals, and consumer preferences. Consequently, more focus should be placed on scientific research and consumer preferences. However, because of the high cost of this kind of research, the authors suggested collaborating with governments and other producers.

Goldsmith (2004) added that today's firms should first understand the customers' needs. They should then produce using the synergies of its own core competences combined with its knowledge of customers' attitudes. This is referred to as Relationship Management, and would give to producers the opportunity to sell their core competencies in a more dynamic and wider relationship than in a purely product transaction.

Goldsmith (2004:191) listed the core competences that producers could bring to the supply chain:

- Land: crop production was extensive, and producer control and care were not easily replaced by integrated supply chain systems
- Production flexibility: whilst during the past twenty years crop production has become more specialized in response to a commodity production system, potential existed for producers to adapt to a new agricultural model dominated by dynamic niche markets that employed more flexible production systems.
- Lack of organizational bureaucracy: producers should directly control their production and, thus, would be more able to respond to the market's demand for identity preservation and other quality control needs.
- Production risk mitigation: producers could play an important role in decreasing supply risk if, for example, they were aligned in a regionally diversified fashion.
- Logistics: with on-farm storage capabilities and transport, producers could address many of the material flow needs of producing firms lower down in the chain.

In the new agriculture (see table 7.2), farming is viewed as having the potential to become more specialized and more integrated with the rest of the food supply chain. To achieve this objective, farmers and FCBs should adopt network structures or pursue strategic alliances. To conclude in table 7.2, Holmlund and Fulton (1999) have attested that a c onsiderable change has been in the shift from the production of commodities to the production of specialised food products, and from spot market to contract agreements, resulting in greater returns thanks to the value added to the production instead of the previously commodity strategy of low cost and high volume.

Table 7.2. Characteristics of the traditional agriculture and the new agriculture

Traditional Agriculture	**New agriculture**
Producing commodities	Manufacturing food products
Distinct segments	Integrated systems
Combined production stages	Separate production stages
Bulk markets	Niche markets
Price risk	Contractual risk
Concern with monopolies	Concern with information
Need for access to capital	Need for access to knowledge

Source: Holmlund and Fulton (1999), modified

7.10.2 Business structures of FCBs

In order to become more market orientated, Kyriacopolus and van Bekkum (1999) have suggested the following changes to traditional FCBs.:

- <u>From equal to equitable treatment</u>. Introduction of members' agreements and homogenisation of the membership.

- Strengthening individual property rights. Capital provision should be related to usage of the organization. Establishment of a secondary market for equity capital to increase transferability. For example, tradable shares could be use as a mechanism to evaluate the management and the performance of the business.
- Coordination of the supply of raw materials. Exact quantities and required qualities should be supplied to the organisation.
- Procurement diversification. More freedom to allow trade with non members and to develop a global supply base.
- IOF subsidiaries for marketing and international operations. A more agile and flexible IOF that would be attractive to external investors
- Decision making task allocation. Management functions have become more complex, consequently, coops should aim at attracting competitive managers.
- Introduction of shares to reconcile members' and managerial interests. The payment of dividends or bonuses related to performance would align interests and avoid conflicts. The value of the shares would be a clear indication of the performance of the business to both, investors and management.

Schaffner (2004), moreover, added that cooperatives with closed memberships had two great advantages over traditional coops. Firstly was the fact that they did not have to accept extra members or products which would not suit their businesses, and, secondly, tackled the disincentive which addressed, for some members, the investment in a business was only seen as a home for their product.

To have a successful FCB, Fulton (2000) emphasised the need to develop a common identity among members, and Parnell (1999) pointed out the need to develop mutual trust between the participants in the process.

Following the notion of developing more consumer focus for FCBs, Kiriakopoulos (1998) described both, production-orientated and market-orientated coops (table 7.3).

Table 7.3 Production oriented and market oriented cooperatives

Structure	Production-orientated cooperatives	Market orientated cooperatives
Control	Only Members Democratic control Board of directors restricted to members	Members and limited number of non-members Democratic control Participation of external experts or external owners Separation of decision making
Ownership	Only members Open membership, ideological/political neutrality/ societies Limited entry fee to coop assets Collective capital	Members and limited number of non-members Closed membership Entry fee in proportion of patronage Transferable shares
Benefits	Restricted to members Equal pricing Equity gains redemption Minimum interest on shares	Members and limited number of non-members Equitable pricing Equity gains reflected on shares Competitive interest on shares
Market strategy	Restriction on non-members trade One single homogenous product procurement Delivery obligation & acceptance obligation Horizontal expansion via federated structure and mergers with other cooperatives Cost leadership market strategy	Increased non-member trade Diversified procurement driven by consumer market demand Specified quality and quantity requirements via contracts or delivery rights Vertical expansion via strategic alliances, R&D consortiums, and marketing and distribution JV Product differentiation market strategy

Source: Kiriakopoulos (1998), modified

Kiriakopolous and Van Bekkum (1999) supported the idea of strengthening individual property rights by requiring a capital provision proportional to the members' patronage and further the setting up of a secondary market for the equity capital to increase transferability and liquidity. They were also in favour of the introduction of shares to reconcile members' and management interests, and the payment of dividends based on business performance would tackle the different interests between members and investors. To recapitulate, the authors suggested a number of clear recommendations for market-orientated cooperatives:

- A change for a more equitable treatment of members: differentiating voting rights, costs structures and product prices
- Stronger property rights: more individualization
- Product supply: delivery rights with contractual agreements detailing quantity, quality and dates of delivery
- Diversified produce sourcing: from members, non-members and internationally
- IOF as subsidiaries for marketing and international activities
- Clear definition of roles: separation between executive and board duties.

Nilsson (1998) identified key characteristics emerging from successful Danish cooperative models (Multi strings) (table 7.4). Firstly, was the differentiation between phases in the processing chain. Whilst the collection of raw products and the initial stages of processing remained within the coops, subsequent processing would be performed by subsidiaries (partly or fully owned by the coop). The rationale considered the lack of profitability at the initial stages of the chain; so, competition should come in at later stages. Secondly, the first stages required a large scale of operation in order to reduce costs, therefore, merger and acquisitions have taken place, and cross country activities were no longer rare.

Table 7.4. Comparison between a traditional and a multiple-string cooperative.

	Traditional Danish cooperative model	Multiple string Danish cooperative model
Raw material	Standard	Differentiated
Market for selling final product	Perfect competition in the market	Imperfect competition in the market
Members	Homogenous – one group	Heterogeneous Several producer groups
Member interests	Similar	Different (special interest)
Member governance	Geographical representation	Producer group representation
Rights and obligations	Everyone has the same rights and obligations	Varies, depends on the producer groups
Decision makers among members	All members (indirectly)	Selected producer groups (in some matters)
Price system	Uniform- a common system	Several systems Guaranteed prices
Organisation of the enterprise	One string	Divided into divisions according to product areas Functions placed into subsidiaries
Control by the cooperative of members' raw materials	None, or limited, indirect control	Close, direct control Quantity control Geographical control Restrictions in form of production Tradable delivery rights Conversion schemes.

Source: Nilsson and Petersen (2000), modified

In the near future, FCBs would have different kinds of members, and they would be treated individually, regarding prices, costs, and investments. Also, processing activities further down the supply chain would be coordinated by market orientated organisation with mixed members or shareholders (farmer and investors) that would be able to compete with multinational companies (Nilsson, 1998).

In respect to the UK situation, Thelwell (2004:8) maintained that in order to have FCBs of similar size and power as those in the rest of Europe, he recommended:

- To invest in FCBs, particularly farmers
- Assess and address the skills gap that needed to be bridged so that most UK FCBs could truly become world class
- Lenders to see FCBs as fertile mergers and acquisition clients
- Remove all regulatory barriers to realising the investment imperative

Following Thelwell's (2004:68) recommendations, there would also be a need for:

- Leadership of high order to persuade producers to take risks
- A business model that empowered executives, whilst farmers remained in control
- Sufficient volatility in the market to produce the necessary acquisition climate
- World class management

It would be worth noting Goldsmith and Gow's (2005) position concerning the risks of the rationale behind vertical integration ventures among farmers. The authors have maintained that farmers' attempts to gain greater value for themselves in a response to poor market conditions, could create a value vacuum if there were not an effective connection with the demand side of the equation.

7.11 In today’s economy, knowledge is power

Ridderstrale and Nordstrom (2004:177)

Knowledge was a key factor to obtain control, increase income and reduce the risk. Those organizations that better utilised knowledge to coordinate their production systems would have a significant competitive advantage. In agriculture, there were two main sources of power and control: a) knowledge of the consumer demand to produce according with their requirements, and b) the supply of raw materials that were not easily substitutable (Fulton and Gibbins, 2000).

It has become apparent that today’s agriculture, information was paramount, in such field as consumer information, buying habits, genetically modify products or a different business structure (Holmlund and Fulton, 1999).

Fulton (2000) has proposed that power and control has been concentrated in those stages of the supply chain where most knowledge is generated. Loss of power and control will be experienced by producers because knowledge has rested in the retail and genetic inputs stages. In addition to this, because those stages were more powerful they would increase the risk to producers.

Business organizations should stay close to the market in order to react quickly and to anticipate changes in demand, therefore, traditional strategies of production orientation and price competition should be adapted to be innovative and to develop market-orientated strategies (Kyriakopolus, 1999)

Holmlund (1999) explained that the supply of know-how was almost infinite because know-how was generated by recombining what existed into new forms. By doing this, it would be possible to create new ways of thinking, resulting in new know-how, which would mean a new set of instructions. Kyriakopolus and van Bekum (1999) emphasised that current market conditions did not allow for production orientated strategies, instead, innovative and market-oriented strategies were imperative.

Holmlund and Fulton (1999:10)

Goldsmith and Gow (2005) have suggested that with good relationship management, supply firms could access knowledge, and be part of the value creation process, without taking the risk of vertical integration.

Ridderstrale and Nordstrom (2004:19)

7.12 The benefits of contracts

It has been emphasised by Parnell (1999) that it was common practice around the world among FCBs to have members' agreement. There existed a contract between the FCB and members in order to clarify the basis on which transactions would take place, and it has been regarded as being more enforceable when specific behaviour is required from both parts. It is regarded as important to reinforce cooperative behaviour as in addition to penalising non-cooperative behaviour within the FCB, because a w eak enforcement of agreements could send the wrong signal to those members who have been following the rules. This kind of agreement would bring discipline and transparency required in order to deliver the quality and consistency demanded in today's business context.

Cook and Iliopoulos (1999) have stated that the problems of the traditional model of cooperatives: free-rider, portfolio problems, horizon problem, control problem and influence problem, could be tackled with a clearer specification of members' property rights. Therefore, the desirable characteristics for FCBs could be:

- Transferable equity shares
- Appreciable equity shares
- Defined membership
- Legally binding delivery contracts or a uniform grower agreement
- Minimum up-front equity investment required.

Cook and Iliopoulos (1999) added that these were the most important characteristics of the new models of cooperatives, such as the New Generation Cooperatives.

On the other hand, it may be important to take into consideration what Parnell (1999) suggested, that when a FCB required more responsibilities from their members, the management and the leadership had to deliver tangible benefits to the membership.

Holmstrom (1999) argued that nowadays most of the companies are valued according to their future income instead of their actual earnings. Therefore, the stock price has been recognised as a very good way to asses future potential.

Ridderstrale and Nordstrom (2004: 41)

7.13 Internationalisation of cooperatives

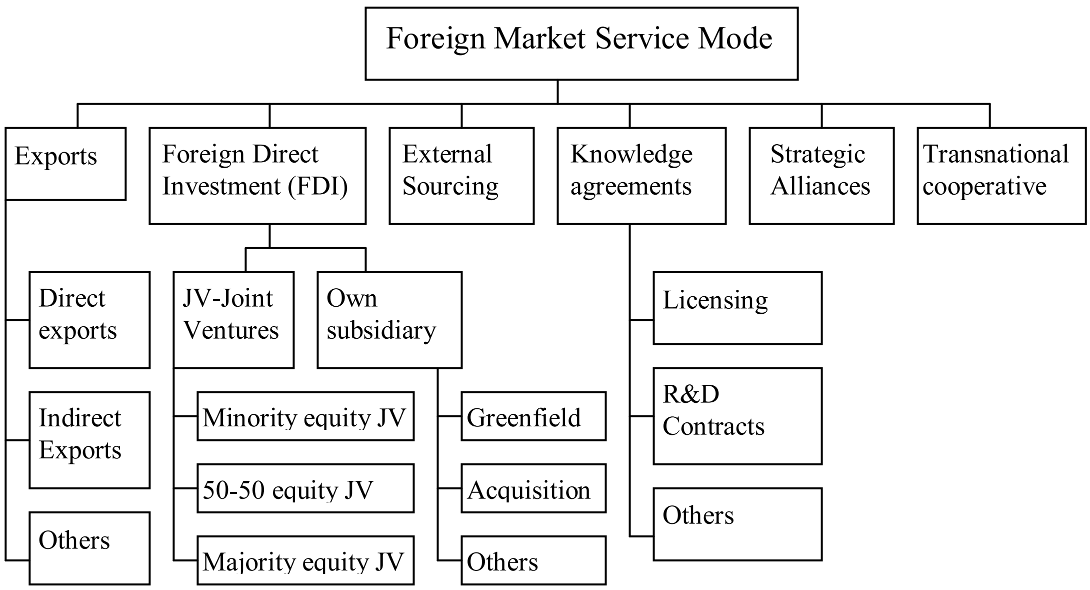
Traditional markets in Europe are being transformed into pan-European markets, increasing competition amongst firms at the beginning of this process, later to decrease once the concentration has arisen through mergers and acquisitions (Fulton and Gibbings, 2000).

It has been attested by Donoso *et al.* (2003) that barriers which cooperatives had to overcome in order to internationalise their business were:

- Marketing orientation instead of producer orientation
- Get closer to consumer
- Relationships with governments
- Strategic thinking
- Development of long-term financing strategy
- Strong ties with a particular region

Donoso *et al.* (2003) (see figure 7.1) found that exporting, either directly or indirectly, in addition to foreign direct investment in subsidiaries and Joint-ventures were the most important forms of internationalisation. Furthermore, external sourcing (third party sourcing) has been used more often among FCBs, particularly, for those products which needed year around supply. Knowledge agreements (sale of technology, licensing and franchising) were a good options in cases where trade and overseas investments were not possible. Cooperatives could form international alliances with other cooperatives or IOFs with the objective of cooperating in specific areas, and normally, may be seen as early steps to transnational cooperatives. Transnational cooperatives are regarded as the last step to internationalisation, and they are defined as cooperatives with members in two or more countries, where members had equals rights and obligations and they shared the same commercial goal.

Figure 7.1: Model of foreign market service modes used by agricultural cooperatives



Source (Donoso *et al*. 2003), modified

Egerstrom (2004) pointed out that American FCBs should be investing in other key countries (as their competitors have been doing in recent years) in order to gain strategic advantages and benefits to their members.

Dononso *et al*. (2003) concluded that agricultural cooperatives could succeed in internationalisation to compete in a global market without creating conflicts amongst members, and gain the know-how which IOFs have been applying for some time.

7.14 Federative coops

Farbairn (2004) suggested that FCBs could develop more into "umbrella" organizations for groups of interrelated ventures, like federative cooperative models which allowed for more flexibility and more effective combination of local knowledge and innovation with central economies of scale.

The umbrella structure could be described as a good way to work with a group of heterogeneous farmers. There was a need to integrate farmers to the activities of the coop because it allowed, like a network, to have autonomous units working in specific activities in addition to sharing services. This structure generated a sense of belonging to the organization whilst control was exercised and the required integration maintained lowering the costs of the most important activities (Fulton and Gibbings, 2000).

MacLeod (2004) supported Fulton and Gibbins' theories highlighting the synergy that could be achieved in the pursuit of growth and wealth creation when cooperatives worked together, particularly using the advantages of structured networks.

In most of the Federative cooperatives, farmers would be members of a local coop, which in itself would be a member of a regional or federative coop, thereby resulting in an indirect control mechanism of farmers-members. However, some federative coops have accepted direct membership from farmers, resulting in direct control from farmers (Zeuli 2004).

Van Dijk (1999) also suggested that top cooperative institutions and federative cooperatives were good options when there was a n eed for scale, marketing coordination, and price policies.

7.15 Leadership and Management

Ridderstrale and Nordstrom (2004:258)

The lack of exceptional leaders and world class managers has been identified as one of the reasons why FCBs have not been very successful (Goldsmith, 2004). Therefore, would be paramount to develop top leaders and outstanding management in order to compete in today's market place.

Davis (1998) said that in order to be effective; cooperatives had to develop a management team which combined cooperative values and purposes with the commercial environment. T o achieve this, the managers should be professional leaders which could lead the organisation on the basis of values.

Egerstrom (2004) supported Van Dijk's opinion that modern FCBs should be able to be entrepreneurial at both levels, at the firm itself (the FCBs) as well at a farm level in order to survive in today's competitive market.

The traditional system of "learn as you go" to develop cooperative leaders was not good enough, as the new FCBs created big business in a very competitive environment. The challenge, at present, would be to add value and to have as many business skills as possible (Wilson, 1998).

The cooperative structure could empower value-based managers/leaders to deliver a product or a service which customers wanted and it would be both socially responsible and environmentally sustainable, to place cooperative organizations at the top of socially responsible business organizations (Davis, 1998).

Wilson (1998) supported Davis's (1998) idea that the cooperative identity perfectly matched the requirements for a business organization in a more caring and compassionate society. Therefore, existing cooperative leaders should help to develop a culture which promoted and nurtured the next generation of leaders.

Ridderstrale and Nordstrom (2004) mentioned that three-quarters of executives thought that human performance was strategically more important than productivity and technology. Furthermore, 80% of the executives claimed that by attracting and retaining people would be the most important strategic issue by 2010.

"*Mediocrity knows nothing higher than itself, but talent instantly recognizes genius*" noted Sherlock Homes author Sir Arthur Conan Doyle, cited Ridderstrale and Nordstrom (2004:261).

Cross and Franks (2006) found that farm advisors played a significant role in supporting and encouraging the participation in environmental stewardships, and that farmers tended to seek help from those advisers whom they knew already instead of looking for new channels of information.

7.16 Summary

Massive changes in every sector of society was caused by Globalisation. One of the consequences was the increase in the concentration of business in almost every industry; therefore, cooperation within the supply chain has been identified as one of the alternatives to increase the competitiveness of primary producers.

The international situation has shown a clear increase in both, the demand for added value products in addition to more competition from overseas products. Alternatively generalised concern existed in respect to the pressure that society was putting on agricultural resources.

The demographics of the UK farming industry have demonstrated a significant decrease in the number of farmers, an increase in the average size of farms, and a significant urban migration into the countryside.

The decrease in farming income has been affected by many variables, not only by retailers, and if farmers did not act soon, their situation could become worse. However, the majority of farmers were willing to embrace changes and were prepared to act accordingly.

One of the options available to farmers would be the differentiation of their produce, because a clear demand existed for different and specialist products. Research has shown that there were many new markets to be explored and that British food should be promoted as healthy and environmentally friendly.

The traditional model of cooperation was production driven instead of being market orientated, and it was also not attractive to external investors; both factors have been identified as barriers for the further development of collaborative ventures in the UK. Therefore, there was a need for new models of collaboration which could be more appealing to UK farmers.

A new mindset is required for today's economic environment, with radical changes at both farm and FCB level. More innovation should be encouraged and supported with investment. Organisational structures should be adapted and trust within the food supply chain promoted.

There was a clear need for investment in soft assets and in the development of tacit knowledge. The proposal would concentrate upon the consumer, who would be offered something different, otherwise international competitors would lead the way.

To do so, the UK faming industry would have to reconnect with the public, they should, moreover, listen to the public and consumers, but they should also educate them in order to develop the business and the community.

For FCBs, the recommendations indicated that they should embrace changes, focus on consumer values and organise themselves to meet consumer' demands. They should adapt their structures to align themselves with the objectives of all stakeholders.

Today's economic environment demanded that in order to be successful, all sectors should embrace the information age, because knowledge brought with it power, and power would bring profitability, therefore, all business should invest in knowledge.

To deal better with this situation, FCBs are recommended to use contracts with their members to clarify responsibilities, rights and duties. Also, they should be advised to reward according to performance, making benefits more tangible to members. The important idea behind the mechanisms proposed is to make sure that all members as well as the management share the same objectives.

The internationalisation was in the process of happening for most competitors, therefore, FCBs should also invest in these kinds of strategic advantages. Nowadays, international borders should not be seen as barriers, and FCBs and its members should keep in mind that it should be for the long term benefits of all the stakeholders.

Federative cooperatives or umbrella organisations could offer what has been lacking in traditional cooperatives, scale, flexibility, knowledge and synergy. Advisors could play a significant role in the promotion and development of collaborative ventures, therefore, they should be instructed in all the available possibilities.

Contribution to the research objectives: Chapter seven not only stressed the urgent change required in the farming industry, it also has signalised the direction that those changes should follow.

7.17 Research statement

The rise of globalization and consumer empowerment have dramatically changed our society over the last decades, however, the UK farming industry has not being able to evolve at the same pace. The industry is now facing the significant challenge of transforming itself in order to gain market power, be more innovative and above all, be more consumer focus. The development of new types of FCBs has been identified as a key factor to promote the change from a production driven industry. Farmers and producers from all over the world have been challenging traditional models of collaboration and developing imaginative options for today's business environment. Therefore, by assessing the effectiveness of existing models and identifying transferable elements, this research will develop new forms of collaboration between farmers with the need to gain market power within the UK food supply chain.

8. METHODOLOGY

Business situations are complex and unique; they are the result of the interaction of different factors and persons in specific conditions. Therefore, in management research, theory is very much engaged with practice.

The most popular research philosophy is *positivism*, and according to Remenyi *et al.* (cited by Saunders *et al.*, 2003) it should be used when the researcher would prefer to work with an observable social reality, and at the end of the project the final conclusions could be law-like generalizations. In addition to this, Johnson and Duberley (2000) said that the analysis assumes that the reality is objectively given, functionally necessary and politically neutral. The quantification required to support positivistic generalizations increases the risk of atomising the social structures under investigation, and the idea of developing theories to be able to predict and control, could result in propositions that only apply in specific circumstances with little relation to daily managerial work (Johnson and Duberley, 2000).

The distinctiveness and complexity of business situations and the need to understand the underling reality behind the main actors, make a positivistic approach less than ideal. However, using *interpretivism* as research philosophy would allow the understanding of participants' motives towards collaboration and cooperation. This better suits the main objectives of this research which is to understand the actions, interactions and motives of the participants within the UK supply chain.

The collection of the data and development of a theory as a result of the data analysis has been described as an *inductive* approach. It is usefully employed when the project is predominantly concerned with the context of events, consequently, a small sample is generally recommended (Saunders *et al*., 2003). This project is committed to understanding how persons managing firms interpret their social world and why they made specific decisions; therefore, an *inductive approach* has been employed in this research. Others authors, such as David de Vaus (2001:5), have referred to this approach as: "*Theory building*". It is described as: "*a process in which research begins with observations and uses inductive reasoning to derive a theory from these observations*." He also maintained that: "*this form of theory building entails asking whether the observation is a particular case of a more general factor, or how the observation fits into a pattern or a story*" (de Vaus 2001:6).

Grounded Theory is a research strategy where data collection could be done without an initial theoretical framework. The theory would then be developed from the information collected through a series of observations; and then it would be tested through yet further observations (Saunders *et al*., 2003). In the opinion of Glaser and Strauss (1967), and cited by Saunders *et al.* (2003), grounded theory could be seen as the best example of an inductive approach, and as a research strategy it clarifies the areas to be investigated, and facilitates the collection of information, it also brings flexibility and provides both explanations and new insights to a project (Easterby-Smith *et al.,* 2002). Within an inductive approach, the current research used a grounded theory research strategy because it allowed the formation of a hypothesis/proposition based on information gathered during the initial stages of the project.

8.1The Delphi technique

The Delphi technique permits the gathering of information and judgments from participants who do not have to physically meet. This technique has the combination of advantages of using group interactions and the interviewees' creativity, whilst being geographically disperse (Dunham, 1998).

Nehiley (2003:2)

The Delphi technique was developed in 1953 at the Rand Corporation (working for the US Air Force) as a method to deal with the complexity of utilizing expert knowledge on strategic bombing. In the sixties the technique was publicly described and adopted by the academic community (Novakowski and Wellar, 2008).

The Delphi has been described as a technique for group facilitation that looks for consensus among a panel of experts through a series of structured questionnaires, also known as rounds (Hasson *et al.*, 2000). The rounds start with the researcher designing the questionnaire or survey in order to be distributed among the panel of experts. The panellists complete the questionnaire and return it to the research monitor who will analyse the information, summed it up, and returned to the panellists with a second questionnaire. During these rounds, the experts are asked to consider their positions in relation to the distribution of responses of previous rounds. The rounds of information gathering continue until the responses become stable (Novakowski and Wellar, 2008).

The process starts with a broad literature review (academic and non academic literature) in order to prepare a statement of current knowledge, identify knowledge gaps, as well as helping with the identification of potential future panellists. This information will also be used to develop the first questionnaire and a background report for the panellists explaining the research strategy and objectives (Novakowski and Wellar, 2008).

The selection of the panel of experts is a critical point in the Delphi technique. It has been suggested that the research team should identify the different types of experts (groups of different stakeholders) that should take part, and select five individuals per group in order to have the commitment of at least three experts per group. A total number of twelve panellists should be enough for the correct implementation of this technique. A person could be selected as an expert if: holds an advance degree in disciplines related to the research topic, have a significant publication record (professional or academic) in the subject, have extensive related work experience in the area, or have a professional affiliation to a relevant organisation. The panellists could be selected from the literature review, from lists of memberships, from public records and from suggestions of previously selected panellists (Novakowski and Wellar, 2008). According to Keeney *et al.* (2001) an expert is an informed individual who is a specialist or has relevant knowledge in the area of study.

Hasson *et al.* (2000) said that the Delphi technique usually uses non-probability sampling techniques, either purposive sampling or criterion sampling. *Purposive* sampling techniques can be used in order to select the most convenient cases studies that would provide rich information to explore the research question. In order to achieve the objectives of the research in an efficient and effective way, companies, experts, managers and directors may be selected using a combination of *extreme cases* (particular interesting cases), *homogenous sampling* (to study a group in depth) and *typical cases* (representative cases) (Saunders *et al.,* 2003). Easterby-Smith *et al.* (2002:126) emphasized the idea that sampling in grounded theory "*runs in parallel to, and is directly influenced by, the analysis of existing data*".

Nehiley (2003) emphasised that the Delphi technique should begin with open-ended questionnaires in order to request a wide range of information and opinions about specific issues, and doing so, the researcher has the option of including any important point suggested by the panellists in the second round. *Unstructured* or *in-depth* interviews were used when there was a need to explore in depth general areas of particular interest to the project. This type of interview gives the interviewee the opportunity to talk freely about events, behaviour and beliefs. *Semi structured* interviews were used to gather data that would be relevant to the research objectives. The interviews should follow a list of themes and questions but the order and the relevance varied from interview to interview (Saunders *et al.*, 2003).

Towards the final round of the Delphi technique, the analysis can be more quantitative and objective and less subjective and judgmental (Custer *et al.,* 1999 and Nehiley, 2003). Originally, the Delphi technique was developed to hold four rounds of consultation, however, nowadays it is considered that two or three rounds are enough because the benefits of the fourth round are very limited (Keeney *et al.*, 2001). In addition to this, the search of a consensus among the panellists seems not to be the best option; instead the use of response stability (when 80% of the panellists don't change their opinions) as the stopping criteria has proven to be a better alternative to make the most of the information gathered (Novakowski and Wellar, 2008).

The analysis of the data (including the use of organizational documentation) has been maintained by Saunders *et al.* (2003) through the creation of a conceptual framework and would occur during or following the data collection. Furthermore, this analysis would assist in shaping the direction of the research, particularly when the research has followed an inductive grounded approach. Also, it is considered paramount to test the hypotheses/proposition which emerge against the data in order to be able to move towards the development of valid and well-grounded conclusions. An advantage was the greater flexibility that this kind of analysis would bring to the project. Grounded theory is used to build an explanation or to develop a theory based on a central theme that would emerge from the data collected, but it is also used as a strategy approach to arrive at a grounded explanation or theory (Saunders *et al.,* 2003).

The Delphi technique has been criticised because it has suffered many modifications, and there is not a strict uniformity of methods. The lack of clear guidance at the time of the analysis may result in different interpretations, questioning the reliability of the technique. Also, the Delphi has been challenged because the panellists are not a representative sample of the target population; however this is a draw back that could be attributed to all qualitative research techniques (Keeney *et al.*, 2001). In addition to this, the panellists may modify their responses during the second and third round if they are trying to conform to the general view of previous rounds. On the other hand, panellists with personal interests in the final results of the research may give extreme responses in order to move the final results in the direction of their interest. Finally, it also has been mentioned that when postal questionnaires are used, the panellists don't have the opportunity to discuss and elaborate on topics that they could considered relevant (Keeney *et al.,* 2001).

The Delphi technique has been widely used in areas such as health and social research (Hasson *et al.,* 2000) and normative planning research (Novakowski and Wellar, 2008), mainly due to its capacity to achieve group consensus as well as forecasts to predict and explore group attitudes, needs and priorities. In the opinion of Nehiley (2003), the Delphi approach is a valid technique that facilitates consensus among specialists who were carefully selected to examine a particular problem. Custer *et al.* (1999) addressed the advantages of using a modified Delphi technique; the difference consisted of beginning the process with a s et of items previously selected from literature reviews or interviews with experts. These modifications add a more solid base and enhance the initial response of participants. The fact that the experts do not physically meet and do not know who the other panellists are, avoids the risk of bias responses due to the interactions of the group with strong personalities or very influential panellists. The Delphi technique has shown to be reliable for structuring group communication and decision making processes (Keeney *et al*., 2001).

The Delphi technique was chosen for this study because of its capacity to gather information and opinions from people who would otherwise find it impossible to interact together. The Delphi technique also suited an inductive research approach and a grounded theory research strategy in the hypothesis/proposition development process based on information collected during the first rounds of information gathering. Following the modified Delphi technique, successive rounds of interviews offered the opportunity to develop and later to refine the hypothesis/proposition.

Easterby-Smith *et al.* (2002:129)

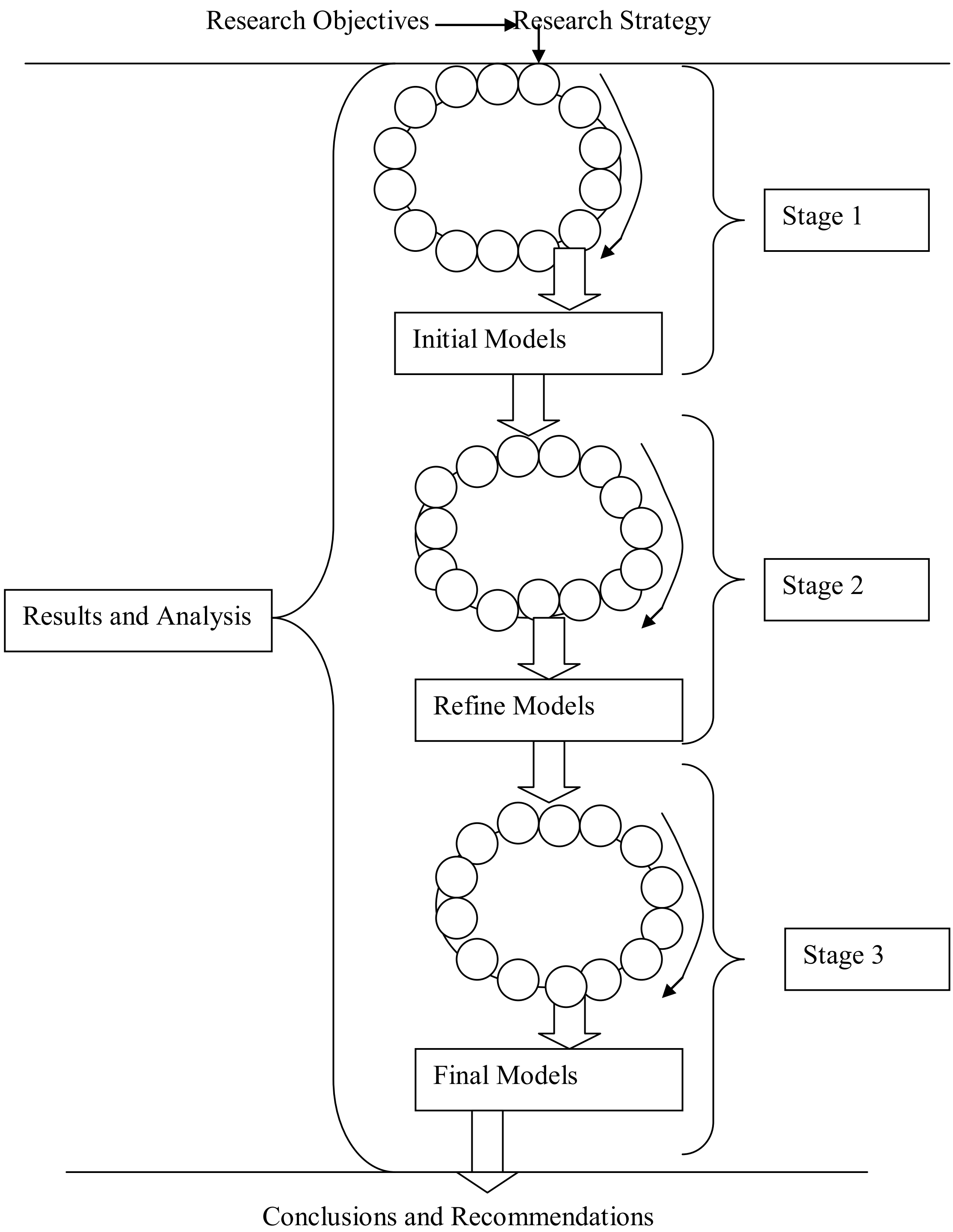
Gill and Johnson (2002) said that a theory that has been developed using an inductive approach is more likely to be useful to practising managers. The terms theory and hypothesis can be used interchangeably, despite that a theory could be identified as a network of hypotheses used to explain a specific phenomenon, and a hypothesis presents assertion explaining the relationship between two or more concepts (abstract ideas used to classify things with common properties). A theory or hypothesis by definition has to be capable of being tested. To do so, the concept of operationalization has to apply; this means that abstract concepts have to be translated into indicators or measures in order to be able to be observable. Then, the theory or hypothesis can be tested through observation of the empirical world (Gill and Johnson, 2002).

The nature and the time scale of this project determine that the collaborative business models developed during this research would be impossible to be tested in the empirical world. Therefore, instead of inductively developing a theory or hypothesis, this research project has inductively developed propositions (term used going forward).

8.2 Methodology and methods used in this project

A series of rounds of information gathering is required by the Delphi technique. Each stage of the research project is represented by a round of face to face interviews. Hasson *et al.* (2000) said that face to face interviews increases the response rate of the panellists and give them a better sense of ownership over the results. In addition to this, face to face interviews improve the discussion of ideas and lift one of the limitations of the Delphi technique, offering the panellists the chance to discuss any topic considered important at any stage of the research. Therefore, three rounds of face to face interviews significantly increase the quality of the information gathered. To achieve the overall aim and the specific objectives, this project was conducted in three stages represented in figure 8.1 (see below). The small circles represent each interview, whilst the larger circles (formed by the accumulations of the small circles) of the diagram represent each round of interviews. The result of every interview is used as input for the next interview, and the result of each round of interviews was used in the following round or stage. The research strategy chosen has given the flexibility required to understand how the interviewees interpreted the socioeconomic environment and their views. According to Hasson *et al.* (2000) the data collected from the initial rounds should be grouped by topic to provide one universal description; also, some editing is allowed in order to limit the number of items transferred into the next rounds. The presentation of summarised information at every round reinforces the validity of the final results making the research process more transparent (Hasson *et al,.* 2000).

Figure 8.1 Research Structure



Interviewees were selected according to a strict selection criteria which took into consideration their professional positions, professional experience, education, and publications in the area of study. All panellists have vast experience in the research topic considering the broad scope of the study and the fact that different groups of stakeholders have to be represented in order to enrich the discussion, as well as strengthening the research process. The number of experts interviewed was comfortably over the minimum recommended by the literature review, and the total amount of time dedicated by so senior individuals of the Food and Farming industry, more than 80 hours in total, gives a clear indication of the importance and the relevance of the research topic and the authority of the research outcomes.

The logic behind the selection of interviewees was as follows: The initial shortlist of key interviewees emerged from a co mbination of the literature review and recommendations from people in the industry encountered during the secondary research. These recommendations were triangulated by identifying the most senior person associated with the organisations comprising the key stakeholders groups such as farmers, FCBs, academics, government officials, advisors, processors and retailers. At each interview, individuals were asked who should be added to the interview list. Again names were triangulated between "nominations". Only when a name had been strongly recommended by at least three others were they invited to be interviewed. Finally, if after a number of interviews among a particular group, the information gathered was quite homogenous, it was considered that the most important points had been acquired and considered. Each process was targeted to embrace a wide range of opinions that would, in the opinion of the author, enrich the research process with different insights. The Delphi technique also allowed the sampling process to develop simultaneously with gathering and analysis of information.

Owing to the nature of this research it was relatively easy to discuss results in informal meetings with people in the industry. These informal exchanges of opinions were not formally used as part of the research project. The ideas generated reinforced what interviewees had mentioned, or otherwise and new ideas were used to feed back into the formal interviews. In addition to this, the results of the research have been presented at a number of international conferences, and these occasions have been used to gather different opinions from international experts. As a result of the involvement of broader audiences, the feedbacks and insights were also taken into consideration to feed subsequent rounds of the formal research process.

The people chosen to be interviewed varied from round to round, significantly increasing the amount of information gathered as well as broadening the spectrum and enriching the information analysed. The panellists were selected at the beginning of each round taking into consideration the main aim of the research and the specific objectives of that particular round of interviews. Originally it was planned to do two rounds of interviews: the first round to develop the collaborative models, and a second round to refine those models. However, due to the good feed back and the positive response of the industry regarding the research topic, it was decided to do a third round of interviews in order to assess the feasibility and acceptability of the proposed models and increasing the applicability of the final outcome.

The information is presented using tables and diagrams showing the relevant insights made by the interviewees. Responses were highlighted according to the frequency and/or emphases placed upon relevant issues. The interviewees were organised in clusters, which also were taken into consideration during the analysis. The information was consolidated by following a sequence of tables, finalising with summaries of the opinions gathered.

8.2.1 Stage 1. Development of the proposed models

Twenty five experts (list of interviewees in appendix 8.1) in the field of business collaboration were selected using a purposive sample approach. Letters were sent to each of the interviewees explaining the research objectives and a summary of the research methodology (appendix 8.2). Those who replied (twenty out of twenty five initially contacted) were later contacted by email or telephone in order to arrange the time and place for the meeting. The panel comprised 2 Government Officials, 4 Senior Academics, 2 Consultants, and from FCBs: 2 CEOs, 2 Directors, a Chairman, 5 Senior Managers, and 2 Managing Directors. The twenty in depth interviews were face to face, with durations between 1 and 2 hours, and following an interviews' guide (appendix 8.3) to make sure that the information previously gathered in the literature review and in previous interviews, was discussed according to the Delphi model. The interviewees' opinion were recorded in notes (see attached CD) that later were brought together into a consolidation table where it was organised by topic discussed, such as structure, finance, governance, directors, members' agreement, benefits and barriers (see table 9.1). Later the information was also classified according to the different types of collaborative models available (found during this research) and each of the topics previously identified (see table 9.2). Then, the information was consolidated and summarised (see table 9.3) in a table that acted as guide to the creation and formulation of the proposed models.

The objective was to identify the parameters of best practice and develop working proposals of how current UK co-operative models might be challenged effectively. The evaluation process comprised the potential of any new model to create opportunities for improved profitability via: 1) greater scale of operation, 2) increased flexibility of structure, 3) enhanced market power via branding or other forms of differentiation. A draft of business collaborative models/research propositions were the final outcome of both the first round of interviews and the initial literature review.

8.2.2 Stage 2. Refining the proposed models

The second stage was carried out in order to refine the models developed in the first stage. The initial plan was to conduct twenty interviews but the stability of responses around the models resulted in a requirement for only fifteen experts (list of interviewees in appendix 8.4) and these were selected using a purposive sample approach. Those who replied (thirteen out of fifteen) were interviewed face-to-face using an iterative Delphi model. The panel comprised: a Government Official, a Farmer Representative, a Company Director, 4 Academics and 6 Senior Consultants. Interviewees were mainly experts who were dealing with farmers on a daily basis in order to gather a closer and more practical understanding. Leading academics with a particular interest in the topic were also interviewed.

Following the same procedure as in stage one, letters were sent to each of the potential interviewees explaining the research objectives, a summary of the research methodology, and a description of the proposed models (see appendix 8.5). Those who replied were later contacted by email or telephone in order to arrange the time and place for the meeting. The interviews followed interviews' guides (description of the proposed models) to make sure that the information previously gathered in the literature review, in round one, and previous interviews, was discussed according to the Delphi technique.

The draft models were sent in advance to the interviewees in order to give them the time to study them carefully. At the beginning of the interview, the models were always described (with the help of diagrams, appendix 8.6) to ensure that they were fully understood. The interview lasted for one or two hours and the focus was on how to adjust each of the models to allow UK farmers to gain competitiveness in the food supply chain.

The interviewees' opinions were recorded in notes (see attached CD) that later were transcripted into a consolidation table and organised by proposed model (see table 9.8 "summary"). Subsequently, the information was also compiled by the different groups of interviewees (see table 9.9, and appendix 9.1 "compiled") according to their role or the organization that they represented. The collaborative business models were refined/modified using the feedback given by the interviewees during this stage. The final outcome of stage two was the collaborative models which were finally assessed in the third stage of the research.

8.2.3 Stage 3. Assessing the proposed models

The proposed models were assessed using twenty two semi-structured interviews with senior managers and business proprietors from different segments of the supply chain (list of interviewees in appendix 8.7).

Following the same procedure as in stages one and two, letters were sent to each of the interviewees explaining the research objectives, a summary of the research methodology, and a description of the refined models (see appendix 8.5). Those who replied (twenty two out of twenty five initially contacted) were later contacted by email or telephone in order to arrange the time and place for the meeting. The panel comprised 3 Company Directors, a Bank Representative, a Retail Representative, 3 Farmers, 3 Consultants, 2 Company Managing Directors, 2 CEOs, a Farmer Representative, and from FCBs: a General Manager, 3 Chairmen and 2 Directors. The interviews followed guides (description of the refined models), to make sure that the information previously gathered, in the literature review, in rounds one and two, and previous interviews, was discussed according to the Delphi technique.

The refined models were sent in advance to the interviewees with the intention that they had time to study them carefully. At the beginning of the interview, the models were always described (with the help of diagrams, appendix 8.6) to make sure that they were fully understood. The interview lasted for one or two hours and the objective was to assess the commercial acceptability and feasibility of the models. The interviews were tape-recorded (tapes available on request) and notes taken of the most important points (notes on attached CD). The interviewees were organised in groups according with their role or the organization that they represented. Their opinions regarding each of the models were compiled and classified according to the perceived importance given by the interviewee to the particular issue (see tables 9.10, 9.11 and 9.12). The final outcomes of stage three were the final collaborative models, as well as the reactions and opinions of the interviewees during this final third stage of the research.

9. RESULTS

9.1 Round 1

9.1.1. Introduction

The results of the first round of interviews and the discussion of those findings are presented in this chapter. In line with the main aim of this research, the development of the propositions was represented by the identification of new models of business collaboration for the UK food supply chain, which would be refined and assessed in successive rounds of interviews.

Having been asked to identify and to evaluate the operational characteristics of traditional models of co-operation in the light of a global food supply chain, respondents of the first round of interviews were encouraged to identify the ideal characteristics for any replacement business frameworks. Responses were classified by their frequency and emphasis placed upon a specific issue by the interviewees. Tables 9.1, 9.2 and 9.3 illustrate the sequence followed to summarise the information.

The interviewees' responses were recorded in notes (available on attached CD) that later were compiled into a consolidation table where there were classified by interviewee and topic discussed, such as structure, finance, governance, directors, members' agreement, benefits and barriers (see table 9.1). Later the information was classified according with the different types of collaborative models available (found during this research) and each of the topics previously identified (see table 9.2). Then, responses were classified by frequency and emphasis placed upon relevant issues by the interviewees. Finally, the information was consolidated and summarised (see table 9.3) in a table that acted as guide to the creation and formulation of the proposed models/propositions.

Table 9.1 Responses								
	Structure	**Finance**	**Governance**	**Directors**	**Members agreements**	**Benefits**	**Berriers**	**Other ideas of the interviewees**
Andrew Luff	Should be lean, with no many assets, all with agreements.	Has not been a problem, anti seasonal purchases, and some credit to farmers.	It is managed by professional mangers with no inputs from members.	They do not have time to spent at the board of directors.	We don't have.	Shareholder bonus, interest, loyalty, bonuses.	Culture of independence. No time to be dedicated to the coop.	Farmers are not good businessmen. Proud to be part of coop, farmers and staff.
Jim Ironside	Extremely lean. Only 3 staff.	It is not a problem. Members are the principal source.	It is lead by the management and no the directors.	Directors are very enthusiastic. Rest of members do not have time.	Kind of agreement.	BRAND. Farmers are cash driven. 20 % ask the prices. Market security.	Problems with management. IOF could be more business driven? Managers direct the coop.	Farmers do not know the industry. Do not follow retailers requirements. Not ready yet to go international.
Bob Yuill,	Should be flexible. Adapted to the needs of the particularl coop and members.	From banks and partnerships.	Vote according to use. Coops need skills, from farmers or not farmers.	Invest in education. Chairman is the key. Board has to work well.	First fill capacity. Then if Coop is full, entrance fee.	Coops should have control over the processes or the procedures.	Dividends pay taxes. Horizon problems are lifted with communication.	Improve negotiation position, brand or technology. Be considered necessary.
Johanna Roughley	Very rigid inside. Some companies form associations with similar business.	From the franchisee.	One member one vote (1M1V).	Of the BFA, it is good image, so there is some internal politics.	Very important, and strict.	Licensed already tested. Support, training, equipment. Property rights could be sold.	Rigidity, only small changes. Lots of experience in the field, but preconceptions. To join the BFA is hard.	The strength is in the equalities. Brand and support. BFA is a controller and takes care of the image.
D. Lopez Fco.Vidal, Fco Campo	SATs are good for big farmers, and as multi shareholders organisation.	Very small coop are financed by farmers.	Easier in 2nd tier, because there are less members.	They do not want very good mangers.	Coops were the only option. Quite strict rules.	Tax benefits. Security. Social development.	Lack of commitment, and assets not used (fixed costs).	There are more requisite coops. 2nd tier coop only to sell products.

	Structure	**Finance**	**Governance**	**Directors**	**Members agreements**	**Benefits**	**Berriers**	**Other ideas of the interviewees**
David Dickman	Coop model makes the decision process slower.					Democracy, one member one vote.	Not much involvement from the members.	Stockholder driven, consumer and ethically focus.
David Hughes	The key is to choose the right partners, always is going to loose some independence.	Traditional model has intrinsic problems such as common property.	Is very time consuming.	Should be competent and well paid.	Soon the membership will close, and increase the requirements. Not at the start.	Scale give you power. Work together with competitor and retailers.	Very difficult to trust in some retailers. Coops do the quality assurances. Commitment.	Invest in R&D to know your customer more than the retailer. Bring transparency to the market.
David Lopez	SAT, 100% commitment, no democracy, easy to run.	Help from EU or Gov. Pay dividends to see the benefits.	Easier in federation coops, because there are less members.	Good managers and well paid.	With clear requirements. Pay more than the market, and services.	Democracy. Security. Fight inefficiencies of the market.	1M1V if there is no option. Lacks commitment.	Coop if it is the only option, aggregates offer. Needs more consumer focus.
John Currah	G's Mkt sell 100% of G's Growers (70% of total sells). Small team take the decisions, faster.	If G's M would be a coop, would be more difficult to share profits.	60 % within the family, 24 farmers in total. Still open membership. Easier with few farmers.	Good communication with farmers to know their costs. G's Mk take long term decisions.	G's MK decides what to plant. 100% commitment (varies according with products).	Day to day is farmers' responsibility, day to day business is G's Mk. G's Mk never owns the product.	Pay bonuses could be good idea. Benchmarking between farmers is not easy.	Customers don't want the company bigger. But they want more products.
Ian Ridell	Not very formal, association.	Not profitable, each deal is totally independent.	Group is driven by some individuals.		Will be standard contracts and may be agreements.	Put buyers and sellers together. Feed back of information.	Farmers do not have time at all, so 4 or 5 meetings a year.	They saw an example, and they questioned why not do the same?

	Structure	Finance	Governance	Directors	Members agreements	Benefits	Berriers	Other ideas of the interviewees
Prof. Julia		Anecop (2nd tier coop) helps members, with support, including financial. More market access.	SAT are easy to manage.		Members have to pay entrance fees. In case of retirement, the fees are paid back if there is a new member.	Coops are proximity companies, they keep people in the countryside. Good image between farmers.	Big coops loose the land feeling. More commitment. Traditional model has to evolve. There are taxes against dividends.	Anecop is the 1st citrus company of Europe. Providing excellent food safety because all is integrated.
La Vinia	IOF easy to manage, to control. Coops are difficult to grow. So, first increase quality and then price.	70% of the investment is from the members, 30 % from the EU Entrance fees are given back if the farmer retires. Bank loans.	Change of mentality started because of the pressure of British supermarkets. Members still have too much intromission.	Limited liability. Only is in risk the capital invested in the coop. Generation change to improve techniques.	Need for more quality controls. Entrance fees almost cover the investment.	Anecop is in charge of the commercial side. 90% of sales.	Some EU regulations, do not permit to reject some products with bad quality. Too many small farmers, impossible to visit them.	Won the price of best coop of Valencia, ISO 9000. It would be easier with dividends, farmers sell grapes, the coop sells wine.
Joaquin Ortuno (SAT)	23 members, 90 % came from 7 or 8 members. Initially, the vote is in proportion to participation, later no, because of new members and the increase in production.	The right to participate can be sold with the approval of the other members. Pay taxes, less than an IOF. Benefits go through price. From Banks.	Vote in relation to the capital invested. Few and Big farmers. Open to anyone.	New members receive some participations, later transfer from the old members. Experts put value at participation, not sell to capitalist.		Concentration and commercialization is transformation Future, add more value, processing. Buy from non members, market focus.		Could be non-farmers members (no benefits from EU). Coops will disappear because of lack of commitment. Only specialized product.

	Structure	**Finance**	**Governance**	**Directors**	**Members agreements**	**Benefits**	**Berriers**	**Other ideas of the interviewees**
Peter Goldsmith	No farmers focus, supply chain focus. Need for more flexibility to use the opportunities. Strategic fit and uniqueness.	Traditional coops are like ice cubes, change the positions but they will melt anyway Always they need capital.	Teach farmers how the business works. If farmers don't change the aggregator will take the money.	Design is internal, culture of patrons.	Commitment depends on the value of the coop.	Original, coops was the only option. Make it indispensable.	NGC, fix internal problems. Coops take value. Bad and good products. Organics adding more value.	Traditional coops do not match post-modern environment. Should be build from consumer to farmers.
Quintin Fox	Traditional coop model works ok.	Get the money is not problem, qualification loans, farmers loan and interest.	Educate farmers and directors. Each one in their own job.	Most of the Coops are limited by shares or guarantee.	Very important, entrance fees and pay to retire. More quality controls.	Increase benefits, decrease costs, or spread risk. Pay more for use, but not use dividends.	Don't do the 3Cs. It is more difficult to form a new coop.	3Cs. Clear vision, commitment, co-finance. Get closer the farmer to the consumer, instead of focus on consumer.
Ranald Fowler	Traditional model.	Cash from the business, cash generators.	Board is policy makers. CEO day to day.	Leadership, imagination, people skills, leading by example, encourage and motivate. Not copy the previous. Big ego in coops.	Always could finish as a plc with shares.	Improve farm efficiency, and customer service in retail. Give advice and services to members.	No time at all. Farmers' complains. Lack of business skills. Difficult to partnerships because of different cultures.	Advice is included in the price. Retail side won't subsidize the farming. Take over another coops if bring members.
Brian Richardson	Traditional model works OK. Structure to facilitate communication.		Farmers do not see the importance of being big coops.			Communicate to them. Bargaining power and take margin from the next stage of the chain.	Acquiring is better than partnership, to keep control.	Communication of benefits is the Key. Use imports if benefit farmers. Think big.

	Structure	**Finance**	**Governance**	**Directors**	**Members agreements**	**Benefits**	**Berriers**	**Other ideas of the interviewees**
Lord Denis Carter	Do not be afraid to think in big coops.			External directors.			Small farmers don't want to cooperate, not business mind.	Leadership: good entrepreneurs with coop values. Not easy.
Victoriano Martinez	No going into processing. Clear vision, good sales manager, good information and knowledge of the market.	Old members do not invest. Offer tangible benefits to farmers.	Relatively easy.		Check quality. Entrance fees is good, some bit could be returnable. Coop decide what to plant.	It is good to have the ability to buy from other suppliers.	Farmers always want better price. Open to go to other areas, or abroad.	Best food enterprise of rural development. High risk for the level of income. Invest in R&D.

Table 9.2 Responses by model

	Traditional model	**Traditional adapted**	**New models**	**Future models**	**Franchise/Bank**
Structure/ Strategy	-Too many assets (high fixed costs). -Intrinsic problems. -Sometimes this is the only option. - Takes value out of the chain (bad products mixed with good products). -In organic the farmer adds more value. -Do not match post modern environment. -Should works ok. -Should have, 3C (clear vision, commitment, co-finance from members). -Should be closer to consumer. -Use structure to better communicate the benefits. - The strategy should be to take a margin from next stage of the chain. -Not partnerships, buy and control.	-Very lean, no own assets, it is better with agreements. -Improve negotiation position with: brand, technology, process controls. -Be considered necessary. -Choose the right partner, always going to loose independence. -Work together with competitor and consumer. -Growth improving quality. -2nd tier coop is the commercial side of the 1st tier coops. - Not attractive in good years because farmers have more options, could create instability. -Coops should use imports if it is necessary to remain competitive and benefit the members.	- Good for big farmers and multi-shareholders. - Federations of businesses. - Depends on the coop and the situation. - Be required/wanted. - Choose the right partner, always going to loose independence. -Not very formal (associations, groups). - Put buyers and sellers together. - Should be able to buy from non members (market focus) (not benefit from EU). -Focus on farmers, instead should be on the supply chain, more flexible, with a good strategic fit and uniqueness.	-From consumer to farmer. -Using alliances and partnerships. -Diversification, risk management, add value, brands (with a brand developer). -Traditional model do not mach post modern environment. -Should have, 3C (clear vision X, commitment, co-finance). - Use lean structure to communicate benefits. -Improve negotiation position with: brand, technology, process control. - Choose the right partner, always going to loose independence. -Work together with competitor and consumer. -Non farmers focus, supply chain focus, more flexibility, strategic fit and uniqueness. -Support, training equipment. - Ethically driven.	-Very rigid model. - Licensed tested, support, training equipment, a brand. - Equality (strength). - Traditional model is slow. -Stakeholders ethically driven, consumer focus.
Finance	- By members. -From tax benefits. -It is difficult to share profits. -Finance is not a problem. -Qualification loans. -From members, own business generate cash.	- Is not a problem: anti season purchases. -Take from members. -From Banks. -Partnerships. -From members. -Qualification loans. -Use financial tools.	-Subsidize company (IOF) to attract investors. -Partnerships. -Not profitable (associations). -From banks. -Always there is a need for money.	- By members. - From Banks. - Subsidize company (IOF) to attract investors. -Partnerships. -Qualification loans. -To use financial tools.	-From the franchisee.

	Traditional models	**Traditional adapted**	**New models**	**Future models**	**Franchise/Bank**
Governance	-It is difficult. -Needs education. -Easy if everyone knows their job. -Members do not have time at all.	- Led by managers. -Vote according to use. -Small team of managers, faster decision. -Easier with less farmers. -Farmers too much to say in the day to day operations. -Difficult with too many small farmers.	- Easier (federations) with less members. -More commitment. -Easier in SAT. -Well paid managers. -Groups are driven by a group of individuals. -Too big coop, loose contact with the land.	-Led by managers. - Small team of managers: faster decisions. - Well paid managers. -Needs education. - Vote according to use. - Easier with less farmers. - Easy if everyone knows their job.	-BFA one member one vote. -Not much involvement.
Directors	-Sometimes they do not want good managers. -Needs education. -Leadership, drive, imagination, people skills, lead by example, encourage and motivate, humble, not copy previous leaders.	-No time for the coop. -Need for skills (farmers or non farmers). -Well paid. -Should have externals. -Leadership; an entrepreneur with coop values (not easy).	-No time for the coop. -Need education, principally the farmers directors.	- Need for skills (farmers or non farmers). -Well paid. - Leadership; entrepreneur with coop values (not easy). - Need education, principally the farmers.	-Gives reputation.
Members Agreements	-First, fill the over capacity. -Should have, they are necessary. -Only some shares, not representing all the investment.	-No all have, sometimes a kind of agreement. -Will be soon available. -100% commitment. -Day to day decision are from farmers.	-More commitment. -Will be in the future, but not prices (association).	- Very important. - Should have. - Kind of. - More commitment.	-Very important.
Dividends	-Dividends pay taxes. -No good, it should only pay according to use. -Good idea in some cases.	-Bonuses related to profits and loyalty. -Dividends pay taxes. -Good idea. -Good idea, raw material vs final product. -No formal contracts.	-Some kind of dividend it is good idea. -To see the benefits (future and tangible). -SAT pay less taxes than IOF, but more than Coops (most through prices).	- Some kind, to see the benefits. - Bonuses for profits and loyalty. - Good idea, raw material vs final product.	-Franchisor, commission from sales. -Paid dividends.
Entrance fees	-Should have.	- Waiting list, the fees paid most of the investment.	-Yes.	- Initial investment. - Waiting list, paid most of the investment.	-Initial investment. -BFA, difficult to get into.
Retirements payments	-Should have.	-Entrance fees is given back.	- Yes, if someone else join the organization.	-Should have. -Entrance fees is given back. - Yes,if someone else join.	

	Traditional models	**Traditional adapted**	**New models**	**Future models**	**Franchise/Bank**
Open membership			-Yes.	-Yes (at least at the beginning).	
Quality controls	-Should have more.	- Will increase (not at the start). -Limited by EU policy.	-Should increase.	-Should have more. -Limited by EU policy.	
Planning				- By the coop, in relation with costumers.	
Delivery rights, shares			-Yes. -Initially is proportional to use. -Can be sold (not to an investor), valued by an expert.	- Initially is proportional to use or investment. -Can be sold (not investor), valued by an expert.	- License could be sold.
Common property, 1M 1V			-SAT, no democracy. -Initially is proportional to invest.	- Initially is proportional to invest or use.	-Clear property right.
Horizon problems	-More communication.	-More communication.			-License could be sold.
Culture barriers	-Farmers are too proud. -Lack of commitment. -Lack of consumer focus. -Model has to evolve. -Survive if specializes. -Culture of patrons. -Commitment depends of the value of the coop. -Against partnerships, worst with others coop, big egos. -Farmers always complain. -Do not want to see the benefits of being part of. -Farmers are not special any more.	-Very independent. -Lack business skills. -Farmers are cash driven. -Have been bad managers. -Big egos. -Should work together with competitor and consumer. -Retailers don't want too big FCBs. -Generation change is needed to improve techniques. -Psychological problem, 1st have to recognize the illness.	-Choose the right partner, always going to loose independence. -They had to see an example. -Lack of commitment. -Farmers have to change, if not someone else (aggregator) will take the money. - Farmers have to be more consumer focus.	-Farmers are very independent. -Lack of business skills. -Farmers are too proud. -Lack of commitment. -Lack of consumer focus. - Culture of patrons. - Retailers don't want too big FCBs. - Psychological problem, 1st have to recognize the illness. - Choose the right partner, but is always going to loose independence.	-No changes permitted -Prejudices, not much experiences.
Coop Image	-Good image, but there is not other options.	-Very good for farmers and staff.	-SAT do not have the best image, less social development, more money driven. -Federations good image.	-Very good for farmers and staff.	-BFA very good image, set up with this aim.

	Traditional models	**Traditional adapted**	**New models**	**Future models**	**Franchise/Bank**
Benefits	-Security and social development. -Services. -Democracy, security, fight inefficiencies of the market. -Spread risk. -Improve farm efficiency, better prices, less cost. -Increase bargaining power (Always have to think big). -Should go out of commodities. - Farmers owners of their own destiny.	-Brand. -Security. -Scale. -Quality assurances inspection. -Invest in R&D. -Transparency to the market. -Services. -Benchmarking between members. -Hire banks and traders. -Sure volume to customers.	-Bigger farmers have more votes. -Dividends (future). -Should pay more than markets and offer services. -Access to market, support and finance. - Development. - Security. - Better food safety because it is an integrated company.		-Equalities.
Interviewee or Example	-Small coops in Spain -SAOS	ACT, BBB, SAOS, G's Growers and G's Mkt, La Vinia	SAT, SAOS, Associations, Federation, OLE		Franchise, coop bank

Table 9.3 Summary					
	Traditional models	**Traditional adapted**	**New models**	**Future models**	**Franchise/Bank**
Strategy	- It is focused in farmers. - It is far from consumer. - Should have the 3 Cs. - Not like partnerships. - Could work OK.	- More consumer focus. - Better negotiation positions. - Open to partnerships.	- More consumer focus. - More supply chain focus. - Being unique. - Specific groups of farmers.	- Business driven. From consumer to farmer, supply chain focus, partnerships, supportive. - 3C (Obj, commitment, finance).	- Rigid. - All done, decided. - Supportive. - Consumer focus.
Structure	- Farmer focused. - Do not match post modern environment. - Independent from other business.	- Leaner structures. - More flexible. - More options.	- Lean structures. - Strategically functional. - More practical (multi-shareholders, buying from non members).	- Very lean and efficient. - Strategically functional. - Practical (less barriers). - Flexible and adaptable. - Supportive & Communicative.	- Very rigid model. - Supportive.
Finance	- By members (retention of profits). - By banks. - From the own business (cash generators).	- By members (retention of profits and loans). - By banks. - Subsidiary company.	By members (retention of profits). - By banks. - Initial investments.	- By members (retention of profits and loans). - By banks. - Subsidiary company. - Initial Investments. - Partnerships & Alliances. - Tradable "rights".	- By franchisee.
Management and Governance	- It is difficult. - Internal politics. - No clear roles (need of education), directors vs managers. - Interferences.	- Led by managers (better paid). - Less farmers (easier). - Open to vote according to use.	- Well paid manager. - Clear roles (educated). - Les members. - More commitment.	- Small team of well paid managers. - Clear roles (managers-directors-members). - 100% commitment. - Open to vote according to use.	- Clear roles.
Directors	- Needs role education. - Sometimes against good managers. - Lack of Leadership. - No time.	-No time for the coop. - Need for skills. - Should be well paid. - Non farmers. - Leadership.	- No time for the FCB. - Need for skills. - Educate the members.	- Need for skill (farmers or non farmers). -Well paid (good image). - Leadership; entrepreneur. - Educate the farmers.	- Skillful. - Good Image.
Members Agreements	- First fill the over capacity. -Are necessary.	-Yes, it is the tendency. -100% commitment.	- Bring more commitment. - Will be in the future.	- It is trendy. - Increase commitment (Clear rules, planning).	-Very important.
Dividends	- No good, pay for use. - No too bad, depends of the situation.	- According to: profits, loyalty, final products. - Dividends pay taxes.	- Some kind of dividend to see the benefits (future).	- Some kind, to see the benefits. For: profits, loyalty, final products.	-Franchisor, %from sales. - Paid dividends.

	Traditional models	Traditional adapted	New models	Future models	Franchise/Bank
Entrance fees	- Should be.	- Waiting list, enough to paid investments.	- Very important.	- Initial investment. - Requirements.	- Initial investment. - Requirements.
Retirements payments	- Should have.	- Entrance fees is given back.	- Yes, if someone else join.	- Should have some kind of retribution.	- Sell the license.
Membership	- Open.	- Open.	- Open (NGCs is close).	- Open (at least at the beginning).	- Relatively open.
Product quality controls	- Should have more controls.	- Will increase (not at the beginning). - Limited by EU policy.	- Should have more controls.	- Very important. - Limited by EU policy.	- Extremely rigorous.
Planning	- Not coordinated.	- Sometimes coordinated.	- By the coop.	- By the coop, in relation with costumers.	- By the franchisor.
Delivery rights, shares			-Yes, initially is proportional, can be sold.	- Some kind right would be good. - Better if it is tradable.	- License could be sold.
Voting power	- 1 Member 1 Vote.	- 1M 1V, open vote according to use.	- Initially is proportional to investment.	- Some kind of relation with use or investment.	- 1M 1V.
Barriers/ Obstacles	- Farmers independence. - Lack of commitment. - Culture of Patrons. - Against partnerships. - Acceptance of the reality.	-Very independent. - Lack business skills. - Possible Retailer opposition to big FCBs. - Need: generation change.	- Lack of consumer focus. - Lack of understanding of the business environment. - Need for urgency (someone else will do it).	- Industry culture (bad history). -Lack understanding of the business environment. - Retailers opposition to powerful FCBs. - Acceptance of the reality.	- No changes permitted. - Prejudices, not much experiences.
Coop Image	- Good, but there is not options.	- Very good for farmers and staff.	-SAT not the best image, FED have good image.	- Have to be good for farmers and staff.	-BFA good image.
Benefits	- Security and social development, democracy, spread risk, increase bargaining power, add value, own their own destiny.	- Brand, security, scale. - Quality assurances inspections. - Invest in R&D and marketing. - Transparency to the market. - Services, benchmarking.	- More business driven. - Pay more than markets and offer services. - Access to market , support, finance. - Development and security. - Food safety in integrated organization.	- Access and Benefits of a bigger organization with more power, influences, resources and connections.	- Support, training. - Qualities.
Interviewee or Example	- Small coops in Spain -SAOS	ACT, BBB, SAOS, G's Growers and G's Mkt, La Vinia	SAT, SAOS, Associations, Federation, OLE (NGC)		Franchise, coop bank

9.1.2 Responses summary

Tables 9.4 to 9.6 present the summary of the gathered information from the interviewees related to the most significant factors affecting farmers' collaboration in the UK.

Table 9.4: Very important factors: Culture of "farm focus" (lack of understanding of the food industry outside the farms business)

Barriers to collaboration	Desire characteristics of FCBs
Domestic vision (production focus, independency).	Supply chain focus, consumer focus.
Lack of business vision (lack of professional management).	Understanding of the business environment (run by professionals).

Table 9.5: Important factors: Intrinsic limitations of the traditional model

Barriers to collaboration	Desire characteristics of FCBs
No clear sense of ownership.	Tangible assets and benefits.
Lack of commitment and dedication.	100% commitment and professionalism.
Inadequate structure and inflexible rules.	Lean structure and flexible rules.

Table 9.6: Relevant Factors: Personal characteristics and skills of the members

Barriers to collaboration	Desire characteristics of FCBs
Lack of good leadership.	Leaders with the right vision and attitude.
No clear division of roles.	Professionalism/ clear roles.
Not enough training and education.	Education, training and support.

9.1.3 Implications of the findings

The findings have concurred with the majority of writers who have been working on cooperation over the past two decades (Bowles, 2004; Goldsmith, 2004; Holmstrom, 1999; Houlmlund and Fulton, 1999; Kyriakopolus and van Bekkum,1999; O'Connor and Thomson, 2001). The results also supported the findings of the two latest English reports concerned with cooperation, Thelwall (2004) and EFFP (2004a), despite their differing research objectives.

A key issue which was identified from the interview results was the limited and inconsistent perception of UK farmers for the need for change. Both Thelwell (2004) and Waner (no date) suggested that farmers remained production driven, whilst Fulton and Gibbings (2000) identified that the key driver for increased market power was the knowledge and response to consumer demands. H e cited the 'New Generation Co-operatives' in the USA as examples of firms with a vision of the food chain in its entirety. This would support the theory that a different model of cooperation could promote and develop a new kind of culture in the British farm industry.

Kiriakopoulus and Van Bekkum (1999) stated very clearly that the limitations of the traditional model of cooperation acted in most of cases as a barrier which did not allow farmers to change their focus from a production-orientated to a market orientated business.

The intrinsic limitations of the traditional model of cooperatives have been discussed widely in international literature. O'Connor (2001) has stated that the problem lay in the treatment of the capital as common property, the weak links to voting powers, and the difficulty of withdrawing investments. Cook (1995) highlighted the importance of the members' commitment to guarantee control of a cooperative. The lack of commitment and participation from members was a common factor through all the interviews and lack of time was the principal explanation of that issue. Interestingly, there was less agreement on the identification of the limitations of the traditional model. Barriers to collaboration were identified by those directly involved with traditional cooperatives, but not by the other clusters. These other groupings clearly saw a lack of supply chain focus as key limitations, and these acted as important barriers if an organisation was aiming to be world class.

Related to the previous findings, a lack of business skills among members, and, therefore, in the controlling boards, was unanimously identified by cooperatives' managers and experts. A finding of O'Connor (2001) similarly identified a lack in a range of business skills. Following on from that notion, Waner (no date) suggested the need for the appointment of a unified group of producers, including those with leadership skills, knowledge and with strong business plans.

9.1.4 Conclusions of the first round

- It was evident that to address problems related to culture and attitudes would be a long term process. However, an option to tackle these problems could come from the development of new collaborative models with clearer commercial and business objectives and on an international scale. In other situations, where individual businesses (farmers' groups or very small traditional cooperatives) did not necessarily have the required vision or culture, they could be associates of bigger organizations (like a federation of collaborative ventures or a network) that could bring to the business the new culture and the required business skills and scale. The key factor was to gain recognition of the need to fundamentally address organisational structure.
- There needs to be established the right to trade ownership and, moreover, to create a financial framework attractive to external capital. The payment of dividends or bonuses should be more visible benefits of being part of an organization.

- There needs to be a more consumer-supply chain focus, in order to attract the quality of leaders required. An increase in business education levels was necessary in order to make professional the different roles. If the operating model was more consumer-supply chain focused, with a significant flow of information going back to the members and clear business objectives and structures, it should be easier to attract proactive new members with a continual interest in increasing their level of participation. Increased dedication and commitment would be consequences of the added value that the coop would represent to a member.

9.1.5 Proposition: Collaborative models

The initial idea was to develop a single collaborative model that could be flexible enough to suit any business situation as well as any type of farmer. However, through the course of the first round of interviews the author realised that there are so many different realities, personalities and businesses, that it was impossible to develop only one model that would suit everybody. Therefore, the outcome of the research has been to develop three discrete but combinable models of collaboration (see table 9.7). The development of the proposed models was based on a combination and/or adaptation of existing collaborative models, mechanisms used by present organisations and ideas of interviewees as well as the author. The building process could be followed from table 9.1 to table 9.3. The different concepts developed during the interview process were always suggested and discussed with the interviewees. It was a building process that had started with the literature review, followed during the round of interviews, and ended with the analysis of the gathered information and the formulation of the three models[3].

[3]The name of the proposed models have been developed by the author, having their origin in the combination of the following words: Network, Association, Cooperative and Business

Table 9.7 Description of the proposed models

Models	**Netassoc**	**Netcoop**	**Netbus FBM**
General description	A place where supply and demand matched their needs under very little supervision or control. Extremely flexible for the members. No entry or exit barriers. Could have contracts between participants.	A flexible model that changed its shape according to demands. Similar to a New Generation Cooperative. Each participant owned "participations" and "rights". Could be used as a kind of federative model.	A flexible model that changed its shape according to the demands. It would be a normal company but its shareholders could come from all the supply chain.
Shape	Network- club- association.	Network of farmers or FCB.	Network of business.
Legal framework	Association / group.	Limited company or coop.	Limited company.
Orientation / scope	Horizontal & Vertical.	Horizontal & Vertical.	Horizontal & Vertical.
Members / shareholders	Mainly farmers but could be some processors.	Farmers or coops or FCBs.	Any type of participants in the supply chain.
Participation /votes	One member one vote.	According to use, "participation and rights".	According to investment (different categories of Shares) and control policy.
Dividends or bonus	No need.	Paying benefits according to use or participation. Also the right to pay bonuses.	Has to pay benefits according to investment.
Finance	Low requirements. Funded by the members.	Members and financial institutions.	Members, financial institutions, and investors.
Governance	No problem, standardise contracts.	Extremely important.	Extremely important.
Directors	Representative of the members.	Members and externals. Business skills.	Members and externals. Business skills.
Members agreement	No need, the contracts could do the work.	Recommendable, but not indispensable at the beginning.	Very important to clarify roles and responsibilities.
Entrance fee	Insignificant for the paperwork.	Purchase of "participations" and "rights".	Investment in company shares (categories, farmers, investors).
Retirement payment	No need.	Participations would be tradable, sell them (could have some restrictions).	Selling of shares at market price (could have some restrictions).
Membership	Open.	Could be open until the capacity was full (mainly processing).	Could be open until the capacity was full (mainly processing).
Advantages	Get supply and demand together. Production according to some requirements. Increase communication and flow of information. Extremely flexible for the participants. Not initial investment. Basic governance structure (arbitrary). <u>Increase the scope of farmers into collaboration. Could be part of the NetCoop.</u>	The Netcoop would introduce the needed consumer and supply chain focus. Clear sense of pertinence and high commitment of the members. Tangible benefits (dividends and bonus) and better evaluation of the professional management. Production according with costumers' requirements. Scale. <u>Could be used as a Federated model.</u>	Participation of the whole food chain. Clear sense of pertinence and high commitment. Tangible benefits and better evaluation of the management. Increased flow of information. General Scale. <u>Ideal to compete against other supply chains and to develop new product or markets.</u>

Each model required different levels of commitment from its members and would suit different business situations. It is assumed that the prime consideration for members of any organization of primary producers would be a desire to receive enhanced financial benefit from their participation. Each model has reflected the detailed comments of interviewees.

The following three elements comprised either stand alone or composite parts of the new model. For example a farmer might choose to join any one of the three organised groups presented below, but each group might be seen possibly, becoming part of a larger, more complex organisation. An illustration of such a projection might be that several NetAssoc (Model 1) might form a NetCoop (Model 2), and, in turn, several NetCoops from around the world might form a NetBus (Model 3).

The proposed models have taken into consideration that members of any organization of primary producers could receive a financial benefit from their participation in any of the following ways: a) market price for the products b) share of added value for the product c) share of the overall profit of the organization's added value.

9.1.6 MODEL 1: NETASSOC

9.1.6.1 General description

A group of farmers become involved in the model (also industry-related non-farmer businesses) to collaborate in a formal business relationship. The volume, price and quality of the products would be agreed in advance, (there must be at least a clear description of the products to be traded). In some cases, it would be possible to have standard contracts between the members and guidelines about the operational requirements to participate in the NetAssoc. For example, a beef breeder and a finisher might be members of a NetAssoc. The breeder might agree to sells his calves to a finisher. The number of calves, the breed, the weights, delivery dates, sanitary and general conditions, would have to be agreed in advance.

Members would be registered with the NetAssoc but would be flexible in agreeing to contracts in any one trading period. This would allow for a better coordination of the chain, increasing the efficiency and the quality of the final product. Here, supply and demand would be matched within a flexible and yet agreed framework where all parties would have redress to the law. Interaction among members would need little additional supervision or control. The level of organisation could vary, being loose or tight at varying times.

There would be no entry barriers beyond the acceptance by members of the basic rules of the NetAssoc, and no exit barriers other than the restrictions imposed by individual contracts. Co-ordination of membership could be shared by members to reduce overheads. Collectively, members of the NetAssoc might decide to bid for contracts – if successful it might be decided to appoint professional co-ordinators. However, a simple database of contacts would also suffice.

Characteristics of the model:

- Participation /votes: one member one vote, for procedural matters only.
- Dividends or bonuses: No need
- Finance: Low requirements. Funded by the members
- Entrance fee: Insignificant

9.1.6.2 General advantages

It helps to get supply and demand together. Production quality would be determined by individual contracts. Furthermore, there would be increased communication, flow of information and enhanced mutual trust and dependency. Flexibility would be available to all participants. No initial investment would be required. Only a very basic governance structure would be needed, which would develop only on the basis of success and mutual agreement. The members of the NetAssoc might vote to become a group member of a NetCoop.

9.1.7 MODEL 2: NETCOOP

9.1.7.1 General description

This model has been described as an adaptation of the traditional model of cooperatives. Members acquire "rights" to participate in the coop (buying or delivering products). The number of rights purchased by each member would be in relation to the amount of products allowed to be traded, and would be related to the voting power of the member, thereby, increasing the commitment and the sense of ownership towards the Netcoop.

Members would receive the market price for their products, and a further "bonus" which would represent the ability of the Netcoop to add value to the inputs. Thus a c lear differentiation between the product delivered by the member, and the performance of the Netcoop as a business. This kind of procedure would drive producers to increase the quality of their production and would be a good way to evaluate the performance of the Netcoop's management team.

Where the Netcoop operated in more than one sector (business or products), the member's "rights" would determine the number of "participations" acquired by a particular member. These "participations" would represent a share in the whole Netcoop that belonged to each member and would, therefore, be related to voting power. For instance, a member would receive the market price for the products traded (say, x amount of potatoes), plus a later "bonus" based upon the added value in the product sector (performance of the potatoes business within the Netcoop), plus a "participation dividend" related to the profitability of the Netcoop as a whole. Consequently, the vision of the whole business would be promoted and the risk spread amongst the membership.

The valuation of the members "rights" would vary in respect to the overall performance of the Netcoop and these rights would be tradable and may therefore offer the opportunity for a capital gain.

The model can offer many options; it could be used as a federative model, in which producers owned the rights, and the first tier coop owned the participations (related to the number of rights of its members), which would give them the voting power and participation in the overall performance of the federated coop.

Characteristics of the model:

- Members: Farmers or coops or FCBs or Netassocs
- Participation /votes: According to use, "participation and rights"
- Dividends or bonus: Should pay some kind of benefits according to use or participation. Also the rights could pay bonuses
- Finance: By the members, with the purchase of the initial "rights" and "participations".

  By financial institutions

- Entrance fee: Purchase of “participations” and “rights”
- Directors: Members and externals. Emphasising business skills
- Member’s agreement: Recommendable, but not indispensable at the beginning.
- Retirement payment: Rights are tradable; sell them (could have some restrictions)

9.1.7.2 General advantages

The Netcoop model was developed as another way to do business, where the performance of the coop and the sense of ownership would be at the centre. Therefore, the needs of the consumer and a supply chain focus would be introduced in addition to a more flexible structure more suitable to the business environment. Consequently, the flow of information would increase together with members’ business understanding.

It would offer a clear sense of ownership, would increase commitment from its members, with very tangible benefits (dividends and bonuses), and would serve as a better evaluation of the professional management of the coop. A further advantage would be the model’s flexibility, it could be adapted to many different situations, could even be used as a Federated model.

9.1.8 MODEL 3: NETBUSS

9.1.8.1 General Description

The Netbuss may be described as a normal company, with the distinction that its shareholders would be other businesses/companies which were participants at a specific point in the supply chain. It would be a network of businesses which formed a company, thereby, bringing integration, coordination and flexibility to the supply chain. A company would be formed by members in order to increase collaboration and commitment with the common objective of long-term sustainability and competitiveness. Because every stage (every individual business member) of the chain would own shares in the company, there would be clear benefits from the sharing of information and maximum efficiency would be sought.

The structure of the organisation could be horizontal or vertical, therefore, possible shareholders could be: primary producers, processors, input companies, traders, financial institutions, service companies, universities, Netcoops, FCB, and so on. Everybody would buy shares, participate in the profits, and the company would be run as a normal profitable business. Therefore, each member would have to deliver (products or services) to meet the company expectations, otherwise it should be provided by someone else. These kinds of requirements would put pressure on members to be the best in their particular area, and returns would be realised as dividends and as an increase in the share price.

Moreover, some type of restrictions could operate in order to keep producers having a majority balance in the ownership of the company, or even by imposing limitations to other members. This could be done by the introduction of different types of shares with different rights over profits and over voting power.

Characteristics of the model:

- Members: Any kind of business related to the food supply chain
- Voting power: According to investment (different categories of shares) and control policy
- Dividends or bonus: Has to pay dividends according to investment
- Finance: Members, financial institutions, and external investors

- Entrance fee: Investment in company shares (different types of shares: farmers - investors)
- Members' agreements: Very important to clarify roles and responsibilities
- Retirement payment: Sell the shares at market price (could have some restrictions)

9.1.8.2 General advantages

There would be a huge potential for the synergy coming from the participation and commitment to a business from the whole supply chain. No doubt coordination, efficiency and the long-term competitiveness of participant members would be increased. It would also bring a clear sense of belonging and high degree of commitment from its shareholders. There would be tangible benefits including a very good evaluation of management. Bargaining power would have been increased exponentially in addition to the flow of information between its participants. It is perceived as an ideal model to compete against other supply chains and to develop new product or markets.

9.2 Round 2

Following stage one of the research project (see methodology chapter) which reviewed best practices, and ended with the formulation of the proposed models, in the second round of interviews, the main objective was to refine the elements of the new models of collaboration and to gain profound insight into experts' opinion. The original intention was to target around 20 people per round, as was done in round one. However, during round two it become clear that there was a strong consensus of opinion regarding the proposed models. Indeed, the last five interviews gave answers and opinions so similar that it was decided nothing further would be gained from including more interviewees. In addition it was clear that the models needed some variations to meet the limitations as perceived by the interviewees of some of the models. Therefore, it was decided that more useful allocation of effort would be to modify the initial plan, and if necessary to allocate additional time to a final third round of interviews. The list of interviewees and their positions is in appendix 8.4. As was described in the methodology chapter, the draft models (appendix 8.5) were sent in advance to the interviewees in order to give them the time to carefully study them. At the beginning of the interview, the models were always described (appendix 8.6) again to make sure of that they were fully understood. The interview lasted for one or two hours and the focus was on how to adjust each of the models to allow UK farmers to gain competitiveness in the food supply chain. The interviewees' opinions were recorded in notes (see in attached CD) that later were copied into a consolidation table where the information was classified by proposed model (see table 9.8 "summary"). Later the information was also compiled by the different groups of interviewees (table 9.9, and appendix 9.1) according with their role or the organization that they represented. The collaborative business models were refined/modified using the feed back given by the interviewees during this stage. The final outcome of stage two were the collaborative models which were assessed in the final and third stage of the research.

Table 9.8 **Results 2nd Round (Summary)**

NAME	Model 1	Model 2	Model 3	General
William Neville, Burger Salmon		Tradable shares, what would happen if they do not have value?	What would happen if: who pays overheads, how the retailers pay, if processor is not efficient, how to benchmark?	Look at the New European generation coop. Campina/Milk Link The problem has een bad management. Add more value than costs. No problem to set up any kind of coop, share, dividends, tradability, voting according to rights.
Richard Walters, Bidwells	This models always need a hub, entrepreneurial skills.	If the business not successful, who pays the farmer? Same problems a traditional coops: focus, size, different profitability among farmers.	Why I am going to join the model if I am making money? Sharing information with other supply chain.	Telescope: complicated, be careful not to add costs. Expensive to run.
Peter Goldsmith	OK. Price grid from third party. Independent from patrons and members.	OK. Rewards heavy user.	OK. Shareholders: farmers, contractors and marketing company.	Control should be for those who add value. IOF, pays value and reward investment. CEO add value, NGC the board is in control, is not efficient. Coops are no source of value for being a coop. Switch if add value, uplift, or risk mitigation.
Michael Brown, Strutt & Parker	Ok. Personality of the farmer, Get on well.	Easier to buy products than to sell products.		From 1 to 3 increase, commitment, risk, scale, less flexible.1-2 weak link.

NAME	Model 1	Model 2	Model 3	General
Mark Taylor, Dairy Crest	Some quality is not good enough for retailers. Rural Development Agency (Defra) for starting money fro business angels, share risk and reward.	OK. Build on success, and grow.	Requires open minds and the sharing of information. Waitrose is close, farmer pressure to sell more, and they ask farmer how to develop brands. Farmers like to be participants of future earnings.	Setting up a small company same effort to set a big company Scale attract people and money. They want coop values into a plc, because dividends is a cost. Category management is day to day, not strategy.
Nigel Pool, Wye College	Could e-bay be an example?	Will have own assets to add value? Advantages over private sector or other ordinary coop?	Be sure advantages are not overestimate. Only know success in practice.	Beware of legal basis and competition policy. SWOT among different legal options (coop, trust, plc).
Marian Garcia, Wye College				Disadvantages or weaknesses? Include processors in next stage.
Kate Russell, Web Paton	Internal competition among farmer to supply a finisher?	Big enough to add value, but not too much to lose identity. How much value can you add? Good management.	Kick the inefficient out. Competition law?	Telescope, how the small one get represented.
Anthony Gibson, NFU	It is a starting point for further cooperation.			Management. PLc are leaner, they know the business. Coops have the idea that next stage is your enemy. Add more value than cost. Money is driver.
Jamie Gwatkin, Consultant		Good to vote according o use, big farmers. Delivery right sound good.	Good different kind of shares, different benefits to reflect investment.	Management. Good Camgrain.

NAME	Model 1	Model 2	Model 3	General
John Marsh	What is the difference with normal contracts?	Exclusivity, 100% of product through the coop, what happen if the price is higher outside. Who decides what and when to plant?	Member will loose independence because of a tight management. What the retailers win, why not contracts with interchangeable shares, and they have the control?	Different management for each model. What impact could have in your business? Clear costs and benefits of each party. Be impartial, not propaganda.
Andrew Fearne, Wye College.	May be too low commitment. For benefits you have to invest. You need to build trust. What is the benefit for the consumer? But very good for small scale business, abattoir or retailer. Need real benefits. Could develop in something different.	Good split of the price, transparency and reality of farming (not profitable). Could be risky if the farmer has invested too much. Could attract a new generation of farmers, business mind. Good for multi-products, speciality farmers, differentiation. Good for federative.	Too ambitious. Retailers already own the supply chain. Make farmer invest to analyse the information. Retailer invest time and they want results, more product, better supply chain. They don't want assets, invest in knowledge. There are not the conditions to make it work. Wont attract investors, market is too mature. May be in no so mature markets.	MATURE market, difficult o build a brand, is too late Umbrella organization that analyses the market information. Tesco is hard but is growing with their suppliers. Asda wont do it, every day low prices appeal to 30 % of market. Too late to develop top brand. Telescope is too big, too burocratic too costly. Coops will never compete in costs, brand is very difficult.
Defra, Food Chain Division				Do not wait for legislation to change. SFP big impact. Do not bother for small farmers. Could be some money available, but should go against other projects.

The proposed models were described in detail using the diagrams presented in appendix 8.6 and complemented with the descriptions of the models of sections 9.1.6, 9.1.7 and 9.1.8 (see also appendix 8.5). The interviewees were encouraged to offer their opinions about their suitability for the UK farming industry. Specific characteristics of the models were analysed and discussed in detail. Responses were classified by the emphasis placed upon a specific issue and taken into the next interview as part of the building process of the Delphi technique (see chapter 8 methodology).

Of the proposed models, two further dimensions (or properties or traits) were considered important. Both were clearly explained and discussed with the interviewees in order to explore the full potential of the models, regarding their capacity to make farmers active participants in the food supply chain, whilst being flexible enough to remain adaptable to many different situations. Firstly, as explained earlier in this chapter, was their capacity to stand alone or as composite parts of the new model. For example, a farmer might choose to join any one of the three organizational models presented, but also, it must be understood that each group could possibly become part of a larger, more complex organisation. An illustration (see last diagram of appendix 8.6) of this might be that several NetAssocs (Model 1) might form a NetCoop (Model 2), and, in turn, a Netbuss (model 3) might be formed from several NetCoops from around the world. Secondly, it should be admitted that the models were not fixed recipes. Instead, they should be viewed as a number of mechanisms, ideas or tools compiled in specific ways to form particular business frameworks. Therefore, it has always been the intention of this research to present many different ideas, tools or mechanisms, which could be extracted from the models, such as a price setting mechanism or a system which strengthened property rights. These could be applied to any other situations.

A summary of responses of the main clusters of interviewees is presented in table 9.9

Table 9.9 Summary of the responses of the second round of interviews

Group	Model 1	Model 2	Model 3	General Comments
Academics-	Price grid from an independent organization. Good for small scale. Commitment would be too low for big business.	It would be like a mixture of cooperatives and limited companies. Could be too risky if members invested too much Good for some types of farmers Not too much emphasis on dividends because risk to look only short term, and should be long term.	Could be too ambitious. Because retailers already owned the chain could work on small scale. Farmer should invest in knowledge. Difficult in a mature market.	Control in those who added value. Investment should be rewarded. Good idea if associated with something new like value or lower risk. Professional management is paramount. Management has been the problem but it would also be the solution.
Advisors-	Needed a driver or a hub (a farmer, a processor or an entrepreneur). Personality of the farmers was very important (get on / trust). Internal competition.	Be careful with the selection of the members, they should be like minded. A big scale could be better to add value, but should try not lose the farmers' identity.	The difficulties existed in some practicalities like how to agree the prices of transferences, and what could happen if some of the participants were not good enough.	Could be expensive to run, be careful in adding cost instead of value. The key was the management.
Companies and others –	Important to control product quality. External guide may be required. It is a good starting point.	It would be a good idea that should be used to build on success and to keep growing.	Very important would be the sharing of information Mechanisms to avoid opportunistic behaviour Good to show the rest of the participants how the others businesses worked.	The starting point should be the consumer. Big scale would be better. Scale attract people. Dividends could be acting as costs.

The most important outcome of the second round of interviews was the positive responses from the people consulted regarding the proposed models. Owing to the constructive reaction, a considerable amount of time during the interviews was dedicated to discussion and exchanging ideas about operational details of the proposed models if they were to be used in some specific hypothetical business situations. This revealed that the models were totally feasible in the opinion of the experts interviewed. They attempted, moreover, to adapt the frameworks to particular cases, which were familiar to them. Also, this confirmed that the models were flexible enough to be adaptable to many different situations. However, it was not the aim of this research to present a detailed description of the mentioned discussions, however, despite that, some of the operational options mentioned have been presented. The emphasis would be on the refinement of the models as business frameworks to be tested in the next stage of the research.

9.2.1 Model 1: Net Association

There was almost an unanimous opinion (12 out of 13 interviewees) that Model 1 was a very good option for farmers who were not ready to invest a great deal of commitment, and who still value very much their independence. The limited barriers to entry and to exit the organisation in addition to the lack of requirement for investments were highlighted as the main characteristics, which would appeal to those "independent" farmers. According to EFFP (2004a), the loss of independence and limited capital, were amongst the most important limitations to encourage farmers to join collaborative businesses. Additionally, those traits were what made Model 1 very attractive to those farmers who had never been members or taken part of any kind of collaborative organisation. Model 1 has been identified as the "entrance" to collaboration. Following a similar notion, it could be said that this model might appear too simple because of its lack of structure and organization, however, it was clear after the second round of interviews that the model offered a very sensible option to those farmers who were used to producing their favourite products and then going to an open market in an attempt to sell them at the best possible price on the day. One of the main objectives of Model 1 was to change farmers' approach to production, by making them more customer/supply chain focused, producing according to the requirements of the next stage in the food supply chain, instead of producing according to their own personal preferences. The results clearly indicated that the interviewees agreed with this idea, and they also considered that it was not a minor change for farmers to start to produce in accordance with the requirements of their customers.

Most of the experts agreed that the participation of a retailer or a processor would be a valuable active member of the group, mainly to introduce a clear consumer dimension and be the “pulling force” of the chain. The importance of sharing of information amongst members was pointed out; particularly useful would be a good feed back from the retailer or processor to farmer members. Following these ideas, some experts and advisors thought that these types of groups normally needed a strong hub or driver which made things happen and kept the group united. Despite that shouldn’t be any problem if this role was taken by a farmer, the advisors suggested that normally retailers or processors would be better placed for the role owing to their commercial experience and drive.
It was also mentioned that in some cases groups could work with an external entrepreneur who saw a business opportunity and could assemble the group, or as someone who was brought in as a coordinator for the group.

The interviewees agreed that Model 1 offered a good opportunity for farmers to start to learn about the rest of the supply chain, and how the rest of the businesses worked. This was perceived as a major step for the further development and sustainability of the business.

In order to avoid internal negotiations which could erode the group, the use of an external and independent price grid was suggested as an alternative. The idea would be that in cases where prices could not be agreed in advance, at least a benchmark could be chosen and a bonus agreed which related to the guide price, whilst remaining parallel with the spot market.

From its development, it was thought that Model 1 could be used in a small scale, and the interviewees agreed with this idea, mainly because of its conceptual framework and its lack of formal structures that made it unsuitable for a big organisation. This concept was reinforced by some experts who highlighted the low commitment that would be required from members, and therefore, the flexibility that the model gave them in respect to the lack of both entry and exit barriers. This made the model not really suitable for big businesses where long term commitment would be paramount.

Advisors with significant experience with farmers' groups pointed out the importance of the personality of the farmers and the trust building process required, mainly during the initial stages of the group. In other words, it was considered important to encourage business relations among like-minded farmers in order to promote the right group dynamics. The importance of cultural fit has been widely studied, Faulkner and Johnson (1992) have attested that culture and goal compatibility were paramount from the beginning of the process to build trust and commitment. Fulton and Gibbings (2000) supported the suggestion that to attain commitment from farmers, an organization should promote the idea of being part of an integrated supply chain.

Amongst companies with previous experience of working with farmer groups, the control over the quality of the product delivered was thought to be extremely important, and that the price system, including penalties and bonuses, should be based on the quality of the product. According to those interviewees the existence of clear contracts between the parts involved, would be a good mechanism to avoid unexpected disputes and to keep the whole process transparent.

However, there was no agreement amongst the interviewees regarding the need for individual contracts at every stage of the chain or a more generic contract that embraced more members. Moreover, there was no clear agreement for the need for contracts during the initial stages of development, because they could act as a barrier to the recruitment of farmers. Despite this, it was a very common approach among FCBs, the Plunkett Foundation (1992) always recommend the use of agreements to have a clear understanding of rights and duties.

Probably the most important outcome of the second round of interviews regarding the viability of Model 1, was the opinion on the need for external advisors or some kind of guide in order to facilitate the development of the group, at least during the initial stages.

It was considered as a given fact that, as in any other business venture, the key for success was the need to be able to add extra value for customers, increasing the possibility of receiving a better price and then being able to share the extra income amongst the participants of the supply chain. To do so, the group should be prepared to offer something different to the market place, because it would be very difficult to convince a customer to pay a p referential price for the same product. The results agreed with writers such as Thomson (2001) who said that there were very good opportunities for well organised and market orientated producer groups which could satisfy consumers' needs in respect to price, quality, marketing and volume.

9.2.2 Model 2: Net cooperative

The results revealed that Model 2 was thought to be a very good option by the significant majority of the interviewees. It was described as a cross between a traditional cooperative and an investor owned firm (IOF), and because of this, it was suggested that it could be very appealing to many farmers. Amongst the farmers interested in the model could be existing members of FCBs which would like to have some of the rights of Model 2, in addition to farmers which were ready to invest in the supply chain but had not found a model that was attractive enough to justify their resources.

These findings perfectly agreed with the main aim of the research. That was to develop new forms of business collaboration, and not to develop a substitute for the existing models, such as the traditional cooperative or the IOF. The aim of the research was to offer different options for those farmers and companies which did not view the traditional and existing models as appealing. It was evident that in the opinion of the respondents the models would not be suitable for everybody, but certainly it was a good option for both the more business minded and the new generations of farmers.

Model 2 was developed to tackle the most important problems of the traditional model of cooperation previously identified by many authors (Cook, 1995; Kyriakopoulus, 1999; and van Bekkum, 2001) as: the Free Rider Problem, the Horizon Problem, the Portfolio Problem, the Influence cost Problem, and the Decision Problem (described in chapter 3 section 6). Also Model 2 incorporated some of the advantages of the IOF described by O'Connor and Thomson (2001) in relation to equity, return from earnings, board membership and performance measurements.

One of the most interesting outcomes of the second round of interviews was the really positive opinion from most of the private businesses regarding Model 2. Those companies agreed that they would like to do business with organisations based on Model 2, mainly because a more determined consumer focus would be introduced into the business and would make mutual understanding easier. All the companies interviewed had vast experience in dealing with farmers as the final destination of farmers' produce.

Owing to the positive opinion of the interviewees regarding Model 2, a considerable amount of time was dedicated to discussing and exchanging ideas about the operational details of the models and possible options available for specific situations. As mentioned in the discussion concerning Model 1, it was not the main aim of this research to go into details of the operations of the models, however, it is felt appropriate to mention some of the points discussed.

The strengthening of the property rights with the creation of delivery rights and participations was well received. Reservations were voiced by some interviewees who worried about the possibility that in some cases, once the organization is up and running, farmers would be encouraged to place too much of their resources into a Netcoop style of business thereby increasing concentration of resources and, therefore, the consequences from the rise in risk.

Furthermore, when the perceived drawbacks of a successful enterprise were discussed, some interviewees mentioned the problem of the rise in the price of the delivery rights acting as a barrier to the entry of new members. Experts and specialist academics have recommended the issue of tradable delivery rights. Sykuta (2001) summarised the discussion by attesting that he supported the idea of organisations with clear delivery rights and appreciable and transferable equity shares. These would be more effective when contracting with producers for high value products, and would also offer members the opportunity to capture value from a cooperative's activities. Members would be able to capture their equity return through both, patronage and equity capital appreciation, which, in turn, would create a dilemma as to whether to reinvest earnings into the organisation or to pay them back to members through patronage.

Very strong support was given for the overall benefits described from bonuses and dividends. In addition to being performance indicators of a business, they would act as mechanisms to demonstrate to farmers the benefits of being members of an FCB. It was, however, suggested that an excessive focus on the delivery of bonuses could put at risk the long term strategies of a business.

The concern amongst interviewees regarding what could happen in extremes situations, in the case of great success, could certainly be taken as a positive insight, mainly because it revealed the potential of the proposed model.

One of the objectives of the introduction of the delivery rights was to increase the control of the organisation over the supply of products from its members to be able to plan ahead more accurately. The next step of development would be for the organisation to take overall control and responsibility for the planning of the production side of the supply chain in order to match it in the best way possible with the demand side. Therefore, the importance of the selection process of members with appropriate attitudes, required business skills, an ability to understand the essentials of the market, and a disposition to avoid any future disputes was emphasised.

Further, members would have to understand the significance of delivery rights as equity titles in addition to contract agreements and the duties and responsibilities attached to them. The most typical example, would be to overcome the temptation of not delivering the products to the organisation if the price on the day was better elsewhere, and by doing so, not fulfilling the amount and quality of product stated in the delivery rights. To avoid this kind of problem, the members' selection process had to be special and any violation of the delivery rights enforced.

As in any other business, the interviewees pointed out the need for this organisation to add value to the market, otherwise there would be no reason for its existence and therefore it would be very difficult for it to deliver any extra income to its members. The latest report concerning farmers' viability in a globalised economy, Hampson (2006), emphasised the need for market differentiation as the only way forward because even the most cost effective UK farmers might not be able to compete with low –cost imports on price alone. However, Askew (2006) offered more options when predicting that in the near future, British farming would have to focus its production in: a) specialist with added value products, and b) commodity production under very strict control and perhaps business restructuring.

At the time of the development of this model, the aim was to offer a business structure flexible enough that it could be of use in both, small as well as large scale operations. The respondents agreed that the model would be perfectly adaptable to both situations. However, it was said by some of the advisors with the most experience in collaborative ventures, that it took the same amount of effort and time to set up a small organisation as a big business. For that reason, the recommendation would be to establish a r easonably sized organisation, which would have more potential and would be more attractive to good quality managers.

It was interesting to note that the companies interviewed were very positive about the future potential of an organisation based on Model 2, but the difference from the other people consulted, was that the commercial organizations viewed the Netcoop not as an aim in itself, instead, they were looking at the model as a significant step towards something bigger and more relevant to the future of the food supply chain. They suggested that the key to achieving the following stages, was to build on solid and shared success at every step of the development process.

The research findings agreed with Kyriakopoulus and Van Bekkum's (1999) in plying that the traditional model of cooperation did not promote a consumer focus amongst its members, and, therefore, FCBs remained production driven.

9.2.3 Model 3: Net Business

One difference from the first two models, was that Model 3 was more controversial. A mixture of positive and negative opinions about its suitability for today's environment for the UK farming industry have been revealed by the results.

Amongst the strongest opinions, one was that Model 3 as described was too ambitious in the sense that it would be extremely difficult to get participants in the food supply chain to collaborate in such an intimate way. In addition to this, it was said that, in the UK market place, it would be very hard to convince companies to commit resources and share information as demanded in Model 3, basically, because the market was mature enough to offer the benefits without taking the risk of investing in that type of business.

The most important remark from the second round of interviews concerning Model 3 was the suggestion that the big retailers would not be interested in investing and participating, because they already held a privileged position in the market place. On the other hand, the same interviewees who had made the previous suggestion, pointed out that there might be other types of retailers or companies in the food service sector, which would be interested if the proposal were attractive enough and the benefits of being a part of the model could be shown to them. It was always stressed that if retailers did not wish to participate, the business model would be perfectly viable in incorporating all the other players of the supply chain up to the stage before the retailers. The vast majority of interviewees thought that such a modification of Model 3 would be more suitable for today's market environment. Although the original concept of Model 3 would have to be adapted, it was suggested that an enterprise such as a Net business could start on a small scale in order to allow the development of trust and confidence required to later move onto a larger scale.

According to most of the academics interviewed, the key success factor for the long term competitiveness of FCBs, would be in the investment in knowledge and soft assets. Model 3 could promote this proposal by offering the mechanisms by which to do so. Since the supply chain would be shortened and information sharing encouraged, it was apparent that that Model 3 had huge potential in the long term.

The advisors consulted were mainly concerned with some practicalities of the model, such as how the participants would agree the transference prices between the different stages of the supply chain. Also, there was concern about what could happen if one of the participants and shareholders did not perform at the expected level, and therefore, compromised the whole business.

The outcome from the second round of interviews was most interesting. The commercial companies which were consulted were the most positive about the viability of the model. This suggests that preconceptions about retailers' opinions could have been used as a barrier to limit the development of collaborative venture. Therefore, it was considered important not to eliminate any model only based on assumptions, particularly considering how quick commercial companies are changing their strategies to follow consumers' demands. The companies underlined that the most important feature for the success of the model would be the compromise in sharing key information, which could be strategically used for the competitiveness of the whole business. Consequently, the importance of implementing some kind of mechanisms for the prevention of undesirable opportunistic behaviours, which could put at risk the viability of the enterprise was suggested.

There was no doubt among the interviewees that one of the big advantages of Model 3 would be the opportunity that it offered to its participants to learn and understand how other businesses and stages of the food supply chain worked. But, as in any other commercial enterprise in any sector, profitability would depend on its capacity to add value to the supply chain.

9.2.4 General comments and messages

It must be pointed out that owing to the nature of the research, most of the positive opinions about the models, such as their potential to be used as instruments to overcome some of the previously identified problems in the farming industry, were not discussed in this chapter, because they were unanimously recognised as being successfully addressed by the models. Therefore, the discussions during the interviews, and consequently in this chapter, were centred on other aspects of the models, which could be more controversial and worthy of a more profound exchange of ideas.

The interviewees made general comments about the key factors to be taken into consideration by any kind of business. The essential elements to increase the chances of success for FBCs were in particular mentioned.

One very interesting remark was made about the importance of rewarding those people in the business who were really adding value, and this was something that traditionally had been a p roblem for FCBs because traditional models were production orientated. Therefore, any new proposed business model should try to deal with this issue in a more efficient way.

Following a similar line of thoughts, the vast majority of the interviewees agreed, with the exception of cooperative managers, that good management was of paramount importance. It was pointed out that the lack of good professional management has been one of the key reasons for the underdevelopment of the FCBs' sector in England when compared with the rest of Europe. However, it was also clear that the way forward was to promote and develop the sector to be totally dependent on the capacity to attract and develop good professional management. Therefore, the business models should offer different approaches towards the treatment and rewarding systems of the management teams.

Also, many interviewees suggested that FCBs should aim at a larger scale, because what had previously has been considered large in the farming sector, would be relatively insignificant looked at from a general business perspective. Today's reality has shown that the industry would have to deal on a daily basis with multinational companies which were bigger than the whole farming industry. Therefore, the proposed business models should be able to allow the organisation to grow beyond previous expectations. This was also considered important because it was recognised that scale attracted able people and world-class management.

Furthermore, there was no doubt that the models would introduce a more consumer focused orientation into the business. It was suggested that ideally, the starting point should always be the consumer, and then the business should be designed retrospectively in the best possible way to supply the required product in order to satisfy consumers' needs. For this to be achieved profitably, a business should be able to bring something new to the market place. It could be in the form of a product, or in the supply of a service, or in access to a new market or in the management of risk.

Suggestions were made that in order to deal with one of the traditional problems of the cooperative system, the new models should always reward any kind of investment at market rates. On the other hand, some company managers mentioned that despite the need for the payment of dividends related to performance, it could also sometimes act as costs for organisations which had not managed expectations in the best way possible.

Finally, owing to the many concerns expressed in regard to model 3, it was suggested that despite its great potential, probably it would be better to propose an alternative, less controversial model, closer to what the majority of the people in the industry were more familiar. Therefore, it appeared as if the industry was not ready yet to embrace significant changes, despite the demands of Bowls (2004) and EFFP (2004a), amongst others, for a rethink of the traditional model of cooperation, and moreover, the need for new models more attractive to external investors.

9.2.5 Conclusions Round 2

The proposed models sought to overcome the perceived limitations of traditional models of UK Farmer Controlled Businesses in the new economic environment. The second round of interviews presented the business models to experts in the field of collaboration in order to refine them and adjust them before the final assessment. After the second round of interviews it could be concluded that:

- The models offered a different framework which would increase the consumer/supply chain focus and the flexibility required by UK FCBs to increase their competitiveness.
- The payments of dividends or bonuses would act as a more visible benefit by being part of an organization. There needed to be established the right to trade ownership and a financial framework attractive to external capital.
- The proposed models offered mechanisms, which would increase the motivation for participation and would develop a stronger sense of ownership which would be reflected in higher commitment.
- The models 2 and 3 provided a better environment for the development of the management, increasing the possibility of better performance, control and career options.
- The models offered new opportunities to proactive new members with a continual interest in increasing their level of participation. Such participating members would support the recruitment of well-educated and/or experienced leaders.
- Model 3 appeared to be not totally accepted. Therefore, a need has arisen for a transition model between models 2 and 3 (described below).

9.2.6 MODEL 2A: THE NET FEDERATION

9.2.6.1 General description

The NetFed could be described as an "umbrella" organisation designed to bring economic scale and business-related skills to a group of commercial organisations, which decided to join resources in order to achieve a particular aim. It could also be depicted as a 2nd tier organisation formed by different types of FCBs (primary organisations), such as cooperatives, farmers' groups, Net assoc, or could comprise individual farmers, which would aspire to take part as direct members (not through a primary organisation).

The simplest way to describe a NetFed would be as a marketing organisation formed to commercialise a particular product produced by the members of two or more primary organisations. The NetFed would act as the commercial department of the primary organisations, introducing the required business skills, the consumer focus, the marketing knowledge, the contacts, and, because it would be able to commercialise products of many primary organisations, it would have the potential to quickly reach a significant scale. In other words, it would be a FCB that brought the skills which were needed for success in today's market place, that for some reason, the primary organisations have not been able to develop in-house. Moreover, it could be that the NetFed would find an opportunity to do something in a more efficient way, such as, putting resources together and sharing risk.

The NetFed would use an adaptation of the property rights structure already described in Model 2, and which was widely approved during the second round of interviews. To avoid the problems of undefined property rights, the NetFed would issue "delivery rights" and "participations" to its members, the primary organisations. They would buy them in accordance with product quantity which would be commercialised through the NetFed, and voting power would also be related to participation. The primary organisations would offer delivery rights to their members (farmers) which would have to pay a market price because they would be tradable. The primary organisations would keep the participations, which would be in proportion to the number of delivery rights (or product) owned by their members. In the case of the farmers who would be direct members of the Net Fed, they would own both, the participations and the delivery rights.

Once the product has been delivered, farmers would be paid a market price related to the quality of the product. In order to make the benefits more tangible, at the end of the year, a bonus would also be paid in relation to the performance of the NetFed as a business, in relation to the quality of the product delivered. Also, following a similar principle, the primary organisations would receive their benefits through the payments of dividends of the participations. This would avoid any conflicts which could emerge if a primary organisation did not acquire any economic benefit.

The voting power to elect the directors of the Net Fed should be related to the number of participations held by the primary organisations. Nevertheless, in cases with not many farmers, voting could take place directly in proportion to the number of delivery rights.

9.2.6.2 General advantages

The Net Fed would offer an opportunity to participate further up the food supply chain by sharing investment and diminishing risk. Also, it would be an easier way to increase scale without the hazards of mergers and acquisitions and the politics of joint ventures and alliances. Finally, it would offer a structure flexible enough to be adapted to the requirements of the market, such as the possibility of adding extra groups of farmers, which could bring either more or complementary products to the portfolio.

9.3 Round 3

During the second round of interviews the proposed models were refined/modified in order to be assessed in the third and final round of the research. The main aim of the third round of interviews was to assess the feasibility, adaptability and acceptability of the models by farming industry senior practitioners. A significant majority of interviewees during this round were farmers, and senior representatives of Farmer Controlled Business (FCBs), processors and retailers. Also, key service providers were interviewed, such as banks, consultants and government officials. For more details of the interviewees see appendix 8.7.

The interviews were tape-recorded (tapes available on request) and notes taken of the most important points (notes on attached CD). The interviewees were classified in groups according with their role or the organization that they represented. Their opinions regarding each of the models were compiled and classified according to the perceived importance given by the interviewee to the particular issue. Owing to the nature of the discussions which pertained during the interviews regarding the feasibility of the models, the results are summarised in separate tables for each model. The results are presented in tables 9.10, 9.11 and 9.12 in respect to the importance of the opinions, stated and judged by the interviewees. Moreover, the level of consensus among them regarding specific issues affecting the acceptability and feasibility of the models has been illustrated.

The final outcomes of stage three were the collaborative models, as well as the reactions and opinions of the interviewees during this final third stage of the research.

9.3.1 Model 1: Net Association

The most important outcome regarding Model 1 was the unanimity of positive opinions regarding its feasibility. Consequently, the discussions mainly concentrated on specific details, which could enhance FCBs that would take Model 1 as the base for their structure and framework. Therefore, because the model was widely accepted, the analysis and discussion of the results focused on those issues identified as potential improvers of the model.

Table 9.10 Summary of the results by groups of interviewees, Model 1.

	Model 1: Net Association		
Group	VERY IMPORTANT	IMPORTANT	COMMENTS
Processors & Retailers	-Processor/retailer as driver & coordinator. -Commitment from farmers is needed. -For added value products. -Farmers not interested in feed back of information. -Lack business skills. -The shorter chain, the more transparent it will be. -Good model to learn about the supply chain.	-Focus on the consumer. -Higher prices to pass on to consumer. -Tailored contracts with incentives. -Farmers lack initiative. -As starting point. -Build trust.	-May be no premium, processor would takes more risk. -Could work without processor. -Tight control. -Two way contracts. -Benchmarking. -Bigger scale needed contracts. -Good, would be a loose. Association.
Farmers	-Good because it would be simple & transparent. -Retailer or processor should be the drivers. -With trust would be easy. -Niche market. -Secure price. -How to share the profits.	-Members' selection. -Clear objectives. - Mechanisms to solve problems. - Clear rules and governance. - Sharing final price and risk later. -Follow quality needs.	-Changes known in advance. -New farmer would be more consumer focused. -Probably too loose, needed more structure for the long term. -Not different enough. -Who would guarantee that the product was good enough for a premium.
FCBs	-Processor or retailer as coordinator & leader. -Niche markets. - Efficient, trustworthy and consumer focus. -Growth strategy. -Needed good feedback from processor.	-Production according to requirements. -Avoid internal competition. -Less risk, less return. -Business plan needed. -Clear share of benefits. -Good with no barriers. -Too loose could lose commitment.	-Benefits different from cash. -Farmer could contribute with time and work (cutting, distribution). -Perhaps the processor would sell a service. -All members should promote.
Experts & Bank & Others	-Needed coordinator. -Niche market/added value. -Good management. -Flexible to other suppliers. -Feed back to all farmers. - Price grid indicating desirable qualities.	-Non farmers as members is good. -Could be difficult with uneducated farmers. -Minimum scale would be bigger than one shop. -Good to have contracts.	-Cooperation needed a culture. -Good to make farmers socialise. -Only produce with a secure. Market.

The results have indicated the unanimous opinion that an association such as this needed a coordinator or a driver which could lead the business. Further, the interviewees agreed that this person or business should be the processor or the retailer involved, mainly because of its proximity to the final consumer, which would give the required consumer focus. It was evident that there was the impression of a lack of business skills amongst farmers. That could be related to their lack of understanding of the supply chain.

The unanimous opinion was that the chance of success for a group such as this would be greater if the focus was on a niche market where some kind of premium price could be obtained and then shared amongst the participants. It was apparent that whilst the processors, retailers and experts were concerned about the farmers' commitment and the need to develop tailored contracts; the farmers and FCBs were worried about a s ecure price for themselves, the governance structure to solve internal problems and the selection of members.

There was agreement about the importance of a simple, transparent and flexible model and the first objective would be in building the required trust to develop a consumer focused business based on customers' needs and a win-win attitude. It was interesting to note that members' flexibility was seen as an advantage and a risk amongst FCBs. Also it was clear that there was an increase in farmers' awareness concerning the need for consumer information and the importance of producing high quality products.

9.3.1.1 Conclusions 3rd Round

- The model was feasible and acceptable, and the recommendations focused on the need for a coordinator (retailers or processor) and to target niche markets.
- The model would be a good way to introduce a supply chain focus into farming; whilst for producers it would be an end, for the rest it would be the beginning of something bigger.

9.3.2 Model 2: Net Cooperative

Table 9.11. Summary of the results by groups of interviewees, Model 2.

Group	VERY IMPORTANT	IMPORTANT	COMMENTS
Processors & Retailers	-Needed a leader & controller. -Good idea the price split. -Bonus as % of price. -Decisions process very complicated among farmers. -Bonuses every 3 or 4 months. -Emphasis on quality. -Bonus according to quality.	-Culture would be big. problem, for cooperation -The problem would be to explain the models. -Needs the right circumstances. -Convince farmers to invest. -Not too much democracy, there would be no responsibility.	-Better for the long term than traditional coops. -Would work if farmers have no options. -Easier with lettuces than. beef (too many sub products). -For entrepreneurs who needed scale.
Farmers	-Good price mechanism. -Good the delivery right and the capital gain. -Bonus related to quality. -Initial investment. -Too many farmers would be complicated. -Careful with governance.	-Invested somewhere else. -Needs a board with no farmers' majority. -Supply from third parties. -Transparent accounts to avoid manipulation of bonuses.	-To use overcapacity. -Good to control over managers. -Good for biofuel, be proactive. -Mechanisms for bad years. -Only marketing, no need for investment.
FCBs	-Had to add value, specialise in one product. -Good for the bonuses and voting according to use. -Professional manager with people skills. -Membership agreement. -Bonus over the year.	-Farmers were not special anymore. -Farmers wanted a good price, bonus was extra. -Should invest in people. -Bonus expectations, less flexibility for managers.	-Difficult to explain -Let the market make the selection. -Delivery rights and participations for retirement. -Based on success. -Finishing unit, right to finish x amount of animals.
Experts & Bank & Other	-Guaranteed price. -Member agreement. -Run for the benefits of their members. -Bonus over the year. -Management would be key. -Management reward tied to bonus and the price of delivery rights.	- Register as I&PS. -Easy in short chain. -Invest in coop or diversify. -Bank would lend for initial investment. -Bonus would be good not to inflate market prices. -Members supply 80% to not inflate the market price.	-Not a coop, because of voting and tradable delivery rights. -As a supply coop. -Better suited for the consumer dimension. -Entrepreneurship not to hold back for the group.

The results revealed that the increasing complexity of Model 2 in relation to Model 1 was reflected in the variety of issues that were highlighted by the interviewees. The most important outcome was the very positive opinion of the vast majority of the people consulted regarding the feasibility and acceptability of the model. The interviewees pointed out that the major difference from Model 1 is that Model 2 it is more elaborated. Model 2 was not so generic, restricting the possible situations where it could be used, in addition to the type of members to whom it could appeal.

The mechanism for splitting the price received by the members with the payment of a bonus in relation to the performance of the business was seen in a very positive way as it demonstrated more tangible benefits. Additionally, the idea of linking the bonuses to the quality of the product delivered was well supported, as well as the division of the bonus throughout the year to help the cash flow for farmers.

Farmers really backed the idea of tradable delivery rights that could offer capital gains. However, they were concerned about the initial investment required. There was widespread concern about farmers investing in a related business or otherwise diversifying in a totally different way. Therefore, it was important to highlight the fact that the bank showed total support for lending the initial investment to buy the delivery rights of FCBs with real potential.

It was clear that there was an increasing understanding of the importance of having professional management and non-farmers directors, as it would make the decision process easier. To avoid conflicts, it was suggested to limit the number of members.

9.3.2.1 Conclusions 3rd Round

- Model 2 was feasible and acceptable for the right members in the right situation.
- It was an alternative with tangible benefits that promoted consumer-focused cooperation based on the leadership of professional managers and directors.

9.3.3 Model 3: Net Business

Table 9.12. Summary of the results by groups of interviewees, Model 3.

Group	VERY IMPORTANT	IMPORTANT	COMMENTS
Processors & Retailers	-Too complicated for farmers. -Why invest here? -Convince retailers, and bring information. -Stuck with the wrong partner. -Very good idea for short supply chains. -Good for suppliers.	-Focus in farming and professionals run the whole business. -How to transfer prices? -Better at a big scale and a with a driver. -May be if retailer owned everything and controlled.	-Farmers not interested in other businesses. -Farmers should buy food manufacturers and realise the pressure of the city, pay a good manager. -Good with shortage of products.
Farmers	-Convince the retailer. -Retailers want freedom to negotiate. -Retailer as drivers. -Negotiation on price. -Attractive for consumers. -Problem with the initial investment.	-Long term contracts but not shares. -Good option for the future, needed solutions today. -Good idea, could work. -Over supply.	-Enforce retailers to look at the long term. -Scare retailers by not growing -What would happen if the business went bad. -Invest in shell instead. -Avoid corporate takeover.
FCBs	-Interesting idea, but uncertain. -Do not add costs. -Premium prices needed. -Good model but had to convince the participants. -Only needed some effective price mechanism. -Farmers did not have the right mindset. -Needed good people. -The key would be trust.	-The best model for a most efficient supply chain. -It is based on its scale and its capacity to be very efficient. -The most exiting model. -Better to buy into the model if farmers had less options.	-If the company was not as efficient as the market. -Difficult for farmer to commit 100% of their production. -Bonus was better than shares' information. -Investment should be tied to production.
Experts & Bank & Other	-Possible, good to tied the retailers. -Would work if the processor felt like it was part of the group. -Good idea to put the supply chain together to balance the retailer' power.	-Could work. -Good combination of farmers and non-farmers. -Difficult at the moment, but may be in the future.	-Same could be obtained with the Netcoop. -International members might be difficult. -Go international with farmers from overseas. -Easy to start with globalised chains like poultry or services.

The outcomes of the third round of interviews confirmed the results of the second round. Model 3 was a good model with the potential to develop into an extremely efficient supply chain, however, after another round of interviews it was evident that the industry was not ready to embrace a challenge of this magnitude. It was important to stress that the main objective at the moment of development of Model 3, was to generate a framework that could create the most efficient food supply chain in the near future. Despite the fact that many interviewees supported this idea, it was clear that the time span would probably need to be longer.

What was seen as the main barrier for the acceptability of the model was the difficulty in convincing major retailers to invest and commit to an enterprise such as this one. At the moment they were in a very powerful position without any need to take risks. The retailers did not see themselves as being part of this model, but they recognised that it could be a good model to organise suppliers and particularly short supply chains.

Most of the participants of the supply chain saw the model as a good option to balance the power of the retailers, but, at the same time, they recognised that the maximum potential of Model 3 was with the full participation of those retailers.

In the case, where the model could be used to organise the supply chain up to the stage prior to the retailers, the interviewees' concern was about how to agree the prices of transferences between participants, and how to make the processor (or other non-farmer members) involved and really feel a member of the enterprise.

9.3.3.1 Conclusions 3rd Round

- Model 3 had a great potential for the future, but, at present, the industry was not ready, and/or the economic environment was not the most appropriate for it.

9.3.4 Model 2A: Net Federation

Table 9.13. Summary of the results by groups of interviewees, Model 2A.

Group	VERY HIGH	HIGH	COMMENTS
Processors & Retailers	-Could work for simple products because there were lots of synergy. -Definitely could work in the rights situation.	-Good model, could be to manage and analyse information.	
Farmers	-It should work but must not add too much administration.	-The only problem would be what OFT would say about it.	-Network of FCBs from around the world could be good.
FCBs	-Very good option. -Good to add value.	-Difficult to get the commitment from the farmers.	
Experts & Bank & Others	-Good to make the connection with the farmer to avoid distortion from the 1st tier. -Would work with no problems.		

The results demonstrated that Model 2A was almost unanimously received as feasible and acceptable. This outcome was more or less expected because the model was based on a typically federative organisation that would be more familiar to the industry in general. The results have also revealed the typical concerns of the industry when referring to collaborative ventures. The processors and retailers could see this model working for an organisation, which could analyse consumer information. The farmers were worried about adding more administration costs and fear actions from the Office of Fair Trading, however, they mentioned that it could be an option when joining with overseas farmers. The FCBs worried about how to obtain the commitment of the farmers, and the experts mentioned the conflicts between the primary organisation and the NetFed. It was widely accepted that the delivery rights and participations mechanisms, with the payment of bonuses and dividends, were very good tools for dealing with the interests of all the participants.

9.3.4.1 Conclusions 3rd Round

- Model 2A was feasible, acceptable and considered the interests of all participants.

9.3.5 General comments

Table 9.14 General comments made by the interviewees about:

Group	
Processors & Retailers	Models: driven by the top, closer to the market. Models: the simpler the better. Models: committed processor who could make the business work. Management: responsible, accountable and rewarded. Management: gave also intangible benefits, sense of belonging. Consumer: wanted farmers to be well treated, not if it is a joint venture. Strategy: adding value was better than scale. Farmers: should get together to solve their problems. Farmers: did not have a business mind, and they had a bad attitude. Farmers: did not appreciate the value of processing and retailing.
Farmers	Models: farmer groups from overseas if they could be convinced. Directors: bad experiences, should be respected and competent. Strategy: farmers needed clear benefits, not more competition. Strategy: bad experience, so they would invest somewhere else. Strategy: it was more difficult in a mature market like this one. Strategy: always had to add value, did not fall into greater debts. Management: difficult to pay a good manger, no money to be made. Farmers: were dealers, liked gambling, not long term commitments. Market place: the whole industry would be rationalised. Market place: 50,000 ha was not big enough (scale is relative). Market place: there was a need for change, not going to happen soon. Market place: supply demand relation had to change. Market place: most farming was not profitable without subsidies.
FCBs	Farmers: there was not a culture of cooperation. Farmers: would have to get worse to admit their needs. Strategy: business should be focused. Market place: City unlocked the value, it needed boring companies. Market place: City could be a cost, but big companies need funds. Market place: now it was possible to have joint ventures with competitors. Market place: scale matters, would be less and bigger farmers & firms. Market place: over capacity in most of the farming sectors. Directors: board with business skills, specialists are in the company. Management: professionalism, but how to pay them at the beginning.
Experts & Bank & Other	Models: difficult to get mutual trade status, careful with EU laws. Models: if payments were becoming the only tie to investments (instead of usage), board and members should be clearly informed. Market place: too big companies could be a problem in some sectors. Market place: start with biofuel, to become owners and not suppliers. Market place: management and directors with consumer dimension. Market place: City not interested in coops, but yes in biofuels. Market place: coops scared to take big risks to keep growing. Market place: there was a huge need for shorter supply chains. Management: reward, (in US the CEO set the strategy, directors agreed). Farmers: the new generation would cooperate more. Farmers: benchmark as a requisite to enter. Farmers: coops: bad experiences, competing farmers, loss of independence, and no export mentality. Strategy: owning the business would offer a more long term perspective.

The summary of general comments presented in table 9.14 reflected a more informal side to the meetings with the interviewees during the third round of interviews. The analysis of these comments and opinions could give an interesting insight into the farming industry and definitely would help to better understand the environment where the models were being considered.

The most important outcome of the interviewees was the concept that many things were changing in the farming industry. All of the interviewees agreed in the significance of the present situation, and that the industry would have to adapt to the new economic situation to stand a chance of surviving. There was a widespread recognition that the balance in the marketplace was not a desirable one, and that a process of rationalisation would soon confront the industry. Also there was a general recognition that a change was needed, but, unfortunately, most of the interviewees agreed that it was not going to happen in the near future.

Collaboration and cooperation in the supply chain was seen as one of the needs to make the industry competitive, however, it was apparent that the experiences of the past were stronger than the need for an attitude change. Processors and retailers always mentioned how bad the farmers were, whilst the farmers recognised that most of them did not like to cooperate, but they accepted that it would be needed.

Furthermore, there was a general opinion that farmers in general would not change soon, and that the process of adaptation would take some time. Regarding cooperation structures, the interviewees agreed that the proposed models offered valid alternatives, and that the key for success would be in adding value, sharing benefits, and professional management.

9.3.5.1 Conclusion 3rd round

- There was a recognition that the environment was changing quickly and that the industry must adapt soon, however, the cultural change might be too slow.

9.3.6 Combination of models

It was thought important to emphasise that when the models were initially presented at the beginning of this chapter it was said that the proposed models could stand alone or exist as parts of the new model. For instance, a farmer might choose to join any one of the three organised groups, and each group could possibly become part of a larger, more complex organisation. For example several NetAssoc (Model 1) might form a NetCoop (Model 2), and, in turn, several NetCoops (might be from around the world) might form a NetBus (Model 3). This idea of the models combining into a bigger organization was presented to the interviewees during the second and third rounds (see appendix 8.6, last diagram). The second round of interviewees did not suggest any change to the concept; therefore it was not presented earlier in this chapter. During the third round, the interviewees suggested that it was a feasible model that should take into consideration the changes proposed to Model 3. Therefore, it could be accepted that the model could incorporate all the participants, (NetAssoc + Farmers + NetCoop + Processor + Distributor), up to the stage prior to the retailers, in order to become a very efficient supplier. Additionally, it was suggested that the combination of models could be seen under the umbrella of an organisation based in model 2A or Net Federation.

Table 9.15 Combination of models

	VERY IMPORTANT	IMPORTNT	COMMENTS
<u>Combination of models</u>	Could work up to the processor, and then a contract with retailers. Difficult to convince the retailers.	Good for management of information. Good for short supply chains, not livestock.	Not many wanted to be sole suppliers. Shortage supply of products. Good to go international.

<u>9.3.6.1 Conclusions 3rd round</u>

- The models offered the flexibility of combining into bigger organisations, which could integrate small farmers into networks of international companies.

9.3.7 General conclusions 3rd round

<u>9.3.7.1 Model 1: Net Assoc</u>

- The model was feasible and acceptable, and the recommendations focused on the need for a coordinator (retailers or processor) and to target niche markets.
- The model was a good way to introduce a supply chain focus into farming; whilst for producers it was an end, for the rest it was the beginning of something bigger.

<u>9.3.7.2 Model 2: Net Coop</u>

- Model 2 was feasible and acceptable for the right members in the right situation.
- It was an alternative that offered tangible benefits and promoted a more supply chain/consumer focus cooperation based on the leadership of professional managers and skilful directors.

9.3.7.3 Model 3: Net Buss

- Model 3 had a great potential for the future, but, at present, it appeared that the industry was not ready and/or the economic environment was not the most appropriate for the set up of an organization based in this business model.

9.3.7.4 Model 2A: Net Fed

- This model was feasible, acceptable and offered a more familiar option whilst considering the interests of all the participants.

9.3.7.5 Combination of models

- The models offered the flexibility of combining into bigger organisations which could integrate small farmers into networks of international companies.

9.3.7.6 General conclusion

- There was a recognition that the environment was changing fast and that the industry must adapt soon, however, it was evident that any cultural change would remain in the future

10. CONCLUSIONS

A more flexible approach is required in today's economic environment in respect to cooperation models for primary producers (Faribairn, 2004). Particularly at times when there were very good opportunities for well organised and market orientated organizations (Thomson, 2001). However, it has been noted that UK farmers have not cooperated as much as European or American producers (EFFP, 2004a). Moreover, Fulton (2000) supported the idea of how new models of cooperation have promoted food chain focus among farmers. Therefore, the main aim of this research was to identify new forms of collaboration between farmers with the need to gain significantly greater scale of operation and flexibility in an increasingly global food chain. The research used an inductive grounded theory approach comprising a series of Delphi iterative face-to-face interviews. Three rounds of guided interviews were completed involving 55 experts and practitioners in the field of business collaboration. Interviewees include, leading academics, government officials, farmers, farm advisors and managers of Farmer Controlled Businesses.

Supported by previous research and the findings in this thesis, which has been based on the analysis of the opinion of influential and experienced industry leaders who accepted three proposed collaborative models as feasible options, <u>the research has concluded that there was a need in the UK farming sector for alternative models of cooperation which could bring together participants of the food chain in order to increase the overall competitiveness by adding value and sharing profits</u>.

There has been an increase in the number of farmers participating in collaborative ventures in the UK between 2004 and 2006, when almost one third of the total number of farmers have carried out some kind of business activity through FCBs (EFFP, 2006a). The research findings have confirmed that there was a different frame of mind regarding the need for collaborative ventures. The industry, in general, was more positive, and farmers, in particular, were seeing cooperation with other farmers and other business of the supply chain as one of the options available to increase their competitiveness in the market place.

The importance of cultural fit and trust between participants of collaborative enterprises has always been paramount for the success of new business structures (Faulkner, 1992; Nordstrom, 2004). Unfortunately, this research has stressed that the traditional cultural barriers and divisions between the different stages and participants of the food and farming industry were still present and prevented the development of a more competitive sector. There has been progress in the assimilation of the supply chain concept, but still most of the businesses involved, according with the interviewees, did not see the other stages of the chain as their potential partners, and this was clearly perceived in the interviewees' attitude.

The lack of business and financial skills amongst farmers has been identified as significant limitations for the success of FCBs (Hampson, 2005; O'Connor and Thomson, 2001). Furthermore, this research has found through expert opinions that farmers are seen by the rest of the participants of the supply chain as: late reactors to changes, still saw themselves as "special", expected from someone else the solution of their problems, lacking in business skills, did not see themselves as part of the supply chain, having a lack of initiative and preferred to be led.

Food processors are under huge pressure from the retailers to deliver consistent quality at competitive prices, increasing the pressure for further concentration in the sector (Keynote, 2006). In this research FCBs and processors complained that they were in the middle between very powerful retailers that always demand more, and farmers who could not understand the whole business and were not ready to commit to their own FCB.

The UK grocery retail sector was one of the most concentrated in Europe (IGD, 2005b), however, their margins were normally smaller than other UK retailers (DTI 2005, in Defra 2006a). From this research, it was evident that major retailers were in a powerful position which gave them the option of choice, however, they were under pressure to constantly deliver more value for money to their consumers and more return to their shareholders. Retailers also complained about the lack of business skills, initiative, and understanding of the supply chain amongst farmers.

There was not a sector in the industry which was more in favour or against cooperation within the food chain, positive and negative attitudes could be found in some way or another across all the sub sectors and stages. Therefore, the key to promote cooperation would be to target those individual or business which were more in favour across the whole food industry.

The traditional model of cooperation had its limitations when dealing with differentiated products in segmented consumer markets (Nilsson, 2000), therefore, one research objective was to analyse best practice in UK and other countries to identify transferable elements. Previous work has proposed to reward members with dividends (O'Connor, 2001), to introduce tradable shares (Zeuli, 2004), in addition to the possibility of capital gains in order to align the membership (Torgerson, 2004). In this case, the research findings showed that, in addition, the cultural barriers have been acting against cooperation within the farming industry. The traditional models of cooperation had limitations which have prevented the development of more successful organisations as well as the recruitment of significant number of farmers. Therefore, there is a need for:

more tangible benefits for the members, clearer property rights, financial frameworks which could attract investments and payments to members and managers in accordance with performance.

It is thought that to address the problems of culture and attitudes would be a long-term process. Therefore, a solution could be development of new collaborative models with commercial and business objectives and on an international scale. Cross and Franks (2006) reported the success of Dutch farmers who recently recognised the need to be proactive regarding environmental issues and formed many environmental cooperatives. One of the research objectives was to assess the effectiveness of the traditional models of cooperation, the author concluded that the key factor in the UK was to gain recognition, among participants of the food chain in general and farmers in particular, of the need to fundamentally address organisational structure.

Ridderstrale (2006) and Wanstall (2006) stressed the paramount importance for companies to recruitment the right people to be more profitable. The research clearly illustrated that there was a need to be more consumer-supply chain focus in order to attract the kind of leaders and managers required. An increase in business education level would be necessary in order to professionalise the different roles.

Management capabilities were key to the development of efficient organisations (Loveridge, 2001). Inspiring leaders are needed to persuade producers to take risks, and business models should empower executives whilst farmers should remain in control (Thelwell, 2004) with a clear definition of roles for manager and directors. The findings agreed with previous work, and this research strongly concluded that the proposed models were more focused, with a significant flow of information coming back to the members and contained clear business objectives and structures. This would attract proactive new members which would support the recruitment of well educated and/or experienced leaders and managers as well as to support them with relevant in house training and professional development. Increased dedication and commitment would be consequences of the added value that the FCB represented to the member.

The key objective of this research was to develop new models of cooperation within the food chain from which UK farmers could gain greater returns from the market place. The proposed models were developed, refined and assessed using both, experts and business leaders' insights. Therefore, the research concludes that the models offer a different framework that would certainly increase the consumer/supply chain focus and the flexibility required for FCBs to increase their market power. The payments of dividends or bonuses would act as more visible benefits of being part of an organization. Also the models offered mechanisms which would increase the motivation for participation and develop a stronger sense of ownership that would be reflected in higher commitment, as well as a better environment for the development of the management, increasing the possibility of better performance, control and career options.

The industry in general was not ready to embrace more radical choices despite its recognition of greater future potential, therefore, more conventional and safer options would be more appealing in times of great uncertainty.

Model 1 or NetAssociation was assessed to be feasible and acceptable. It should have a coordinator or a driver force, which would most likely be the retailers or the processor involved, and strategically should focus on niche markets and added value products. Hampson (2006) also concluded that emphasis should be in market differentiation, because even the most cost effective UK farmer might not be able to compete with low-cost imports on price alone. EFFP (2004a) identified the loss of independence and limited capital amongst the drawbacks to encourage farmers to collaborate. For this reason, low entry and exit barriers of Model 1 made it a good way to introduce a supply chain/consumer focus into farming, particularly for those businesses or individuals with less experience in collaboration. In other words, it would prove to be a good entrance into the business of collaboration. Whilst for some producers it was seen as a final aim, for others producers and for the rest of the supply chain, it was seen as the initial stage of a more ambitious project.

Model 2 or NetCooperative was assessed and found to be feasible and acceptable. It was a more complex model that would appeal for the more business minded farmers who were willing to commit resources in the search for a greater return from their farm business. Previous writers have described the advantages of FCBs with mechanisms such as delivery rights and capital gains (O'Connor and Thomson, 2001), transferability of equity shares (Sykuta, 2001), and the payment of dividends (Nilsson and Petersen, 2000). As a result, Model 2 provided a different alternative which offered more tangible benefits, the possibility to obtain capital gains, would promote a more supply chain/consumer focus cooperation, based on the leadership of skilful directors (farmers and non-farmers) and well paid and professional managers.

Model 3 or NetBusiness was assessed and seen to have a great potential for the future regarding the formation of a very efficient supply chain. Bowls (2004) and EFFP (2006b) have been calling for a rethink of the traditional model of cooperation. Even Askew (2006) said that British farming had to approach new political and market developments with alternative ideas. However, it appeared that according with the opinion of the interviewees, the farming industry was not ready and/or the economic environment was not the most appropriate to embrace such a big challenge. In the short term, and taking in consideration the market power of the different players of the food industry, Model 3 has been proposed as a way to coordinate a supply chain up to the stage prior to the retailers. Interestingly, what could be a revealing outcome of this research is that the retailers were very supportive of Model 3 as a good business framework to organise suppliers, particularly in short supply chains or the case of shortage of produce. In this case, they would be gaining most of the benefits of an improved supply chain, without taking any financial risk.

Model 2A was assessed and found to be feasible and acceptable. It offered a more familiar option for those businesses that considered Model 3 t oo ambitious. Farbairn (2004) suggested that FCBs could develop into umbrella organisations that would allow for more flexibility as well as economies of scale. Fulton (2000) maintained that this structure was a good way to integrate farmers and the activities of the cooperatives, thereby generating a good sense of belonging whilst maintaining control. McLeod (2004) supported these ideas and highlighted the synergy that could be achieved when using the advantages of structured networks. These theories were supported by the findings of this research, therefore, Model 2A was a simple model that offered the possibility of achieving significant scales of operation in the short term by gathering together existing business, farmers, FCBs, processors or private companies of different scales and from different sectors. One difference from earlier models (Federative Cooperatives), Model 2A offered strengthened property rights components and payment mechanisms that took into consideration all the participants of an organisation.

To be really successful, business should go beyond adaptation to the economic environment, they should try to transform the future, and so, success was not about adaptation, it was about creation (Ridderstrale and Nordstrom, 2004). All the proposed models offered a business structure flexible enough to be easily adapted in response to changes in the market place, but they also had the opportunity of combining into much bigger organisations with the potential to integrate small scale businesses into networks of international companies.

This research has concluded that the farming business environment it is so diverse that was impossible to develop only one business model that would suit every situation. Consequently, three business models have been developed, refined and assessed as feasible and acceptable, however, these models are not fixed recipes, and they offer many tools and mechanisms that could be adapted to any existing business model. But above all, this research has raised the awareness of the importance and the potential for collaborative business models in the farming industry.

11. SELF REFLECTION & OPPORTUNITIES FOR FURTHER RESEARCH

This research project has highlighted the clear need that there is in the UK Farming Industry for different models of business collaboration that would offer more alternatives to UK farmers. The Food and Farming Industry is seeing cooperation with a more positive attitude and there is a better focus on the supply chain and consumers, however, there still are cultural barriers that are acting against cooperation.

The traditional models of cooperation have their limitations such as: no tangible benefits, no clear property rights, not being attractive for investors, and payment systems for managers and members that are not equitable. To overcome these limitations, the structural problem has to be addressed. In order to do this, the industry in general and farmers in particular should be more proactive instead of waiting for outside solutions. The proposed models developed in this research offer alternative options to the Farming Industry, changing the focal point of collaboration from business structures focused on production, into structures driven by the market. The new models offer better property rights and payments systems to increase the sense of belonging and commitment of the members, lifting some of the limitations previously identified on the traditional options.

The development of the proposed models was based on a combination and/or adaptation of existing collaborative models, mechanisms used by present organisations and ideas of interviewees as well as the author. All the business models are new, and as far as the author is aware, there is not an existing organisation structured like any of these options. Model 1, Model 2 and Model 2A could resemble some existing examples, but they are unique if we consider all their characteristics and mechanisms. However, Model 3 is very innovative and its uniqueness starts in the initial conception of how far collaboration within a supply chain can go.

All models introduce the needed customer/supply chain focus, flexibility, tangible benefits, and a good potential for economy of scale. Model 1 proved to be a simple cooperation model with no barriers and very appealing to beginners. Model 2 is a more developed option for more business minded members willing to be significant players in the supply chain. Model 3 has great potential but would have to wait for the right circumstances for its adoption. Therefore, Model 2A was a good alternative because it is simpler, people are familiar with the concept, and it still has great potential. It is important to highlight that the models are not fix recipes, instead, they are a combination of tools and mechanisms that could be extrapolated and adapted to any existing models/organisation/structure that needs updating. Therefore, the author would like to emphasise that one of the most important outcomes of this research is the great practicality of the final results (this point was also stressed by most of the experts interviewed during the final stages of the project). The research demonstrated that most of the models were accepted by the industry, showing a clear sense of openness to new ideas, so, perhaps it is time to start leaving behind preconceptions and old assumptions, and promoting new ideas.

This project has gathered information showing the challenges ahead and the thinking of the UK Farming Industry regarding collaboration clarifying where the industry stands, what it is ready to do, and what it is not. But the reason why the importance of these outcomes needs to be stressed, is because it is the first time that the opinions and ideas have been gathered from such a distinguish panel of senior industry member. This strengthens the validity of the final outcomes.

This research has, to some extent, been limited by not having visited more countries. Visits to Denmark, Holland and France would have provided the opportunity to see more cases of how cooperatives and collaborative ventures are adapting in the new economic environment. Denmark and Holland are particularly good examples where cooperatives have developed into big international businesses. France has a very rooted tradition of traditional agricultural cooperatives and therefore it would be very useful to analyse how they are dealing with today's demands. Conversely, it would also be useful to visit a country like New Zealand, mainly because it is outside the European Union, and has a very strong export culture, offering a good option to analyse members' attitudes towards internationalisation and overseas partners.

The research design selected for any research project would always restrain the amount and type of information gathered, mainly because the chosen framework would limit what the researcher is able to do. Therefore, to complement this research project and reinforce its findings, further research could be done by exploring in depth particular case studies in order to really understand the decision process of key players in the UK Farming Industry. In addition to this, further research with a more positivistic research approach could be done to increase the representativeness of the final outcomes (e.g. for a specific sector of the industry, sample a r epresentative number of FCBs/Farmers/Processors and send questionnaires to their Chairman/Managing Director/CEO to ask them about their views on collaboration within the supply chain as well as their opinions of the proposed models).

Due to the nature of this research it would be almost impossible to test the proposed models in the real world (unless the business models are embraced and applied in full in the design of FCBs), therefore, a complementing challenge could be to find specific case studies which are implementing any of the tools or mechanisms proposed in this project (e.g. organizational structure, payment systems, property rights) and investigate them in depth. Generally it was felt that Model 3 had a great potential in the long term, so, it would be exciting to go further in its design, looking into price mechanisms, distribution of overheads, and different shares for different members.

It may be possible that the proposed models, or individual elements comprising key aspects of the models, could be adopted by the agribusiness sector in the short-term. However, it may be probable that some of the more innovative elements of the models might be less immediately acceptable to senior managers and board members. Important considerations that should require additional research would include:

It might be questioned as to why if most of the experts and practitioners were in agreement concerning the practicability of the models, and they suited the needs of the business environment, had they not been widely adopted. It is considered by the research team that there were key cultural and behavioural issues, which should be addressed in further research. Moreover, a further research question could consider why farmers are very late adopters of new business models. It might be pertinent to investigate how to affect an efficient cultural change which would promote the acceptability of new business ideas. Would it entail a matter of timing combined with the right economic environment, or would it be a cultural barrier, which would necessitate waiting for a whole generational change.

Finally I would like to say that in addition to all the specific knowledge that I have acquired while working on this project, the most revealing thing that came across, was the confirmation that the world is not black or white, and that this idea is even more important in business, where most of the time we move in grey areas, grey concepts, and the ability to deal with this ambiguity and being able to see the light on the other side is the key for success. Definitely, one model does not fit all … and will keep changing.

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APPENDIXES

Appendix 2.1: Largest 30 FCBs in Europe by turnover, 2003 to 2005 (£ million) (removed for copyright reasons)

Appendix 2.2: Largest 30 FCBs in USA by turnover 2003-2004 (£ million) (removed for copyright reasons)

Appendix 2.3 UK FCBs marketing turnover as a % of total output (all removed for copyright reasons)

Source: Plunkett Foundation (2001)

Appendix 2.4 Value of products supplied to producers by FCBs in the UK, 2000/01

Source: Plunkett Foundation (2001)

Appendix 2.5 UK FCBs turnover and market share of requisites

Appendix 2.6: UK Marketing FCBs, market value and market share by products

1

Appendix 2.7 Activities of UK FCBs- Estimates of turnover by product (2000/01)

Appendix 2.8 Distribution of cooperative types by county (sample)

County	Marketing	Requisites	Service	Other
Bedfordshire	1			
Berkshire	3	1		2
Buckinghamshire		1	1	
Cambridgeshire	8	2	3	
Cheshire	4	11	1	2
Co. Durham		1		
Cornwall	6	3	3	7
Cumbria	1	4		4
Derbyshire		1		
Devon	9	6	6	3
Dorset	2			
Durham	1	2		
East Riding of Yorkshire	19	1	2	2
East Sussex	1	1		1
Essex	10	1	2	
Gloucestershire		1	1	1
Great London	2		1	
Great Manchester				
Hampshire	5	2	3	2
Herefordshire	7		4	
Hertfordshire	3			2
Isle of Wight	2		2	
Kent	15	2	6	
Lancashire	3	2		2
Leicestershire	1			
Lincolnshire	23	2	11	2
Norfolk	11	3	4	4
North Yorkshire	4	1	2	4
Northumberland	2	2	2	4
Nottinghamshire	1		1	
Oxfordshire	2	1		1
Shropshire	4	2	1	4
Somerset	7	2	2	3
South Yorkshire	1			
Staffordshire	1	1		
Suffolk	4	3	3	
Surrey	1		1	
Sussex				1
Tyne & Wear	1		1	1
Warwickshire	2	1	1	
West Midlands	3			
West Sussex	3	1	2	
West Yorkshire	2	1		
Wiltshire	3	3	1	2
Worcestershire	4	2		1
TOTAL = 379	**182**	**75**	**67**	**55**
% of total	**48 %**	**19.8 %**	**17.7 %**	**14.5 %**

Source: Based on Plunkett Foundation (database, 2006)

Appendix 3.1 Cooperative Principles

Extracted from the International Cooperative (ICA) Alliance Web Site (removed for copyright reasons)

Appendix 5.1 Legal structures (EFFP, 2004b) (removed for copyright reasons)

Appendix 8.1 List of interviewees (removed for confidentiality)

Appendix 8.2 Research Description

Royal Agricultural College, Cirencester

Project title: Effective cooperation within the food chain

1. Overall aim and specific objectives

The main aim is to find a new form of collaboration between farmers with the need to gain significantly greater scale and flexibility in an increasingly global food chain.

The objectives are:

- To assess the effectiveness of the traditional models of cooperation.
- To analyse best practice in UK and other countries to identify transferable elements.
- To develop a new model of cooperation within the food chain from which UK farmers could achieve greater competitiveness.

2. Relationship to published work in the area

The business environment of the food and farming industry is becoming increasingly competitive. Current DEFRA policy and the Report of the Policy Commission on the Future of Farming and Food (2002) identified a need for farmers to cooperate and collaborate more effectively in their business activities in order to be more competitive. According to Ashley-Miller (1994) the lack of success of the English cooperatives or collaborative attempts has been in part due to the traditional high average farm incomes, high level of subsidies, an outdate industry framework, and the lack of government and institutional financial support. Also, the independent nature of farmers could be one of the reasons why the cooperatives have suffered from uniformed boards of directors, management problems and poor leadership. Kinsey (1995) says that the UK will need to move closer to the European example, where cooperatives have been more successful. The Plunkett Foundation (1992) suggests that in order to play an important role in the maintenance of the rural economy the Farmer Controlled Business should adopt more imaginative approaches. Supporting this idea, Hennesy and Robins (1991) state: "*the old style of management will not longer serve under the new conditions in which business must operate*."

This study seeks to introduce broader approaches from strategic management thinking and best practice from other commercial sectors, thereby to create a new working model for farmer collaboration. For example, Bartlett and Ghoshal (1989) describe how global corporations have introduced innovative changes to organizational forms.

> *"Today's worldwide competitive environment demands collaborative information sharing and problem solving, cooperative resource sharing, and collective implementation- in short, a relationship built on interdependence."* (Bartlett, C and Ghoshal, S; (1989; pp92)

Successful companies are able to exploit new ideas and products in a rapid and efficient manner. They need to be increasingly sensitive to market and technological trends no matter where they occur (Bartlett, C and Ghoshal, S; 1989). Grant (2002) highlights the increased emphasis on <u>coordination and collaboration</u>, particularly the ability for <u>networks of small firms</u> to access economies of scale. Managing dispersion, specialization and interdependence are key characteristics of strong integrated networks (Bartlett, C and Ghoshal, S; 1989). It is in the application of such thinking to the improvement of farmer collaboration that this research will make a contribution.

3. Methodology, phasing and timescales

•Literature review
- –Traditional Cooperatives (vertical & horizontal)
- –Scale/Transaction Cost/Financial benefits /culture
- –Alternative models of collaboration (post modern ideas)

•Analysis (Structural and cultural) of collaboration-case studies using interviews and company information (UK and Europe)

- First round of interviews: Using an inductive grounded theory approach and guide interview techniques, experts in the field and from other sectors of the economy will be interviewed using an iterative Delphi model. Interviewees will be managers of successful cooperatives, leading academics and government officials. The objective being to identify the parameters of best practice and develop a working hypothesis of how current co-operative models might be challenged effectively.
- Second round of interviews: The hypothesis will be tested using more structured or semi-structured interviews with senior managers and business proprietors from different segments of the supply chain.

Timescale

Month	Activity
0 – 6	Literature Review (first approach)
6 – 30	Literature Review (ongoing review)
7 – 9	Interviews in UK and Europe (First Round)
10 – 11	Analyze the information and write 1st Report
12 – 13	Develop the new model of collaboration/cooperation
14 – 16	Test the model-more interviews (2nd Round)
17 – 18	Analyze the new information
19 – 22	Adapt of the model to develop the final model
23 – 24	Write of the 2nd Report
25 – 36	Write thesis- literature review – disseminate results

4. The Key References

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5. Facilities and locations available for the investigation.

The literature review will be conducted by using the facilities and the network of the Royal Agricultural College Library. The Library of Coventry University will be also available.

The results will be disseminated through the networks of the Gloucestershire Agricultural and Rural Development, the South West Agricultural Development Group, and the Royal Bath and West Society.
Also the networks of both English Farming and Food Partnerships and Royal Bath and West Society will be used to arrange interviews with key persons in the industry.

Appendix 8.3 Interview guide

<u>Interview guide for 1st round</u>

Opinion of the Interviewee regarding the following topics or issues:

- **Cooperation in the UK. Why has not been as successful as in Continental Europe?**
- **Main problems for Cooperation**
- **Structure of Cooperatives or FCBs**
- **Finance of Cooperatives or FCBs**
- **Governance of Cooperatives or FCBs**
- **Board of Directors of Cooperatives or FCBs**
- **Members agreements in Cooperatives or FCBs**
- **Benefits of Cooperation/Collaboration**
- **Barriers to Cooperation/Collaboration**
- **Ideal characteristics of a collaborative model**
- **Any other comment**
- **Suggestions and Recommendations**

Appendix 8.4 List of interviewees (removed for confidentiality)

Appendix 8.5 Description of the Models

Royal Agricultural College, Cirencester

<u>Project title</u>: Effective cooperation within the food chain

The Royal Agricultural College is conducting research which seeks to identify novel forms of collaboration within the food chain which will enhance opportunities for farmers/grower market power and profitability. The Report of the Policy Commission on the Future of Farming and Food (2002) identified a need for farmers to cooperate and collaborate more effectively. Consequently this study draws upon business models from the broader international business community to identify potential new structures for farmer collaboration

The research project has three phases. The first, after an extensive review of best practice, seeks to develop proposals for new business forms for the sector. The second stage, seeks to refine these frameworks using expert opinion. The final stage establishes the commercial acceptability of the proposed models.

Therefore we present the following three elements which comprise standalone or composite parts of the new model. i.e. a farmer might choose to join any one of the three organised groups presented below, but we also see each group possibly becoming part of the larger, more complex organisation. For example several Network Associations (NetAssoc) might form a Network Cooperative (NetCoop), and in turn several NetCoop from around the world might form a Network Business (NetBus).

<u>Proposed Elements</u>

The proposed models take into consideration that a members of any organization of primary producers could receive a financial benefit from their participation in any of the following ways: a) market price for the products b) share of added value for the product c) share of the overall profit of the organization added value.

NETASSOC

General description

This model allows a group of farmers (also industry-related non-farmer businesses) to collaborate in a formal business relationship. The volume, price and quality of the products are agreed in advance, (there must be at least a clear description of the products to be traded). In some cases it will be possible to have standardised contracts between the members and guidelines about the operational requirements to participate in the NetAssoc. For example, a beef farmer and a finisher might be members of a NetAssoc. The farmer might agree to sells his calves to a finisher. The number of claves, the breed, the weights, delivery dates, etc, would have been agreed in advance.

Members would be registered with the NetAssoc but would be flexible in agreeing to contracts in any one trading period. This would allow a better coordination of the chain, increasing the efficiency and the quality of the final product. Here supply and demand are matched within a flexible and yet agreed framework where the parts would have redress to law. Interaction among members would need little additional supervision or control. The level of organisation can vary, being loose or tight at varying times.

There are no entry barriers beyond acceptance by existing members of the basic rules of the NetAssoc. and no exit barriers other than the restrictions of an individual contract. Co-ordination of membership could be shared by the members to reduce overheads. Collectively members of the NetAssoc might decide to bid for contracts – if successful they may decide to appoint professional co-ordinators. However a simple database of contacts would also suffice.

- Participation /votes :1 member 1 vote, for procedural matters only.
- Dividends or bonus: No need
- Finance: Low requirements. Funded by the members
- Entrance fee: Insignificant

General advantages

Promotes the matching of supply and demand. Production quality is determined by individual contracts. Increased communication, flow of information and increased mutual trust and dependency. Extremely flexible for the participants. No initial investment is required. Only a very basic governance structure is needed, which would develop only on the basis of success and mutual agreement. The members of the NetAssoc might vote to become a group member of a NetCoop,

NETCOOP

General description

This model is an adaptation of the traditional model of cooperatives. Members have to acquire “rights” to participate in the coop (buying or delivering products). The number of rights purchased for each member will be in relation with the amount of products allowed to be traded, and will relate to the voting power of the member, increasing the commitment and the sense of ownership towards the Netcoop.

Members will receive market price for their products, and a further “bonus” which represents the ability of the Netcoop to add value to the inputs. Allowing a clear differentiation between the product delivered by the member, and the performance of the Netcoop as a business. This kind of procedure drives the producers to increase the quality of their production and it is a good way to evaluate the performance of the Netcoop’s management team.

Where the Netcoop operates in more than one sector (business or products), the member’s “rights” will determine the number of “participations” acquired by a particular member. These “participations” represent the share of the whole Netcopp that belongs to each member and therefore relate to the voting power. i.e. a member will receive market price for the products traded (x amount of potatoes), plus a later “bonus” based upon the added value of the product sector (performance of the potatoes business within the Netcoop), plus a “participation dividend” related to the profitability of the Netcoop as a whole. Increasing the global vision of the business and spreading the risk of the membership.

The valuation of the members “rights” will vary with the overall performance of the Netcoop and these rights will be tradable and may therefore offer the opportunity for a capital gain.

The model offers many options, it could be used as a federative model, where the producers own the rights and the first tier coop owns the participations (related with the number of rights of its members), which gives them the voting power and participation in the overall performance of the federated coop.

- Members: Farmers or coops or FCB or Netassoc
- Participation /votes: According to use, “participation and rights”
- Dividends or bonus: Should pay some kind of benefits according to use or participation. Also the rights could pay bonuses
- Finance: By the members, with the purchase of the initial “rights” and “participations”.
  By financial institutions
- Entrance fee: Purchase of “participations” and “rights”
- Directors: Members and externals. Emphasising business skills
- Member’s agreement: Recommendable, but not indispensable at the beginning.
- Retirement payment: Rights are tradable; sell them (could have some restrictions)

General advantages

The Netcoop model promotes another way to do business, where the performance of the coop and the sense of ownership will be at the centre, therefore, introducing the needs for consumer and supply chain focus, as well as a flexible structure more suitable to the business environment. Consequently, the flow of information will increase together with the members’ business understanding.

It offers a clear sense of ownership, increasing the commitment from its members, with very tangible benefits (dividends and bonus), and a better evaluation of the professional management of the coop. The model is flexible and could be adaptable to many different situations, even <u>could be used as a Federated model</u>.

NETBUSS

General Description

The Netbuss is a normal company, with the particularity that its shareholders are other business/companies who are participants of a specific supply chain. It is a network of businesses that form a company, bringing integration, coordination and flexibility to the supply chain. The members form a company in order to increase collaboration and commitment with the common objective of long-term sustainability and competitiveness. Because every stage (every individual business member) of the chain owns shares in the company, there will be clear benefits from the sharing of information and the seeking of maximum efficiency at every stage. The structure could be a horizontal or a vertical organization, so the possible shareholders are: primary producers, processors, input companies, traders, financial institutions, service companies, universities, Netcoops, FCB, and so on. Everybody buys shares, participates in the profits, and the company is run as a normal profitable business. Therefore, each member has to deliver (products or services) to meet the company expectations, otherwise it should be provided by someone else. These kinds of requirements will pressure each member to be the best in their particular area, and the return will come as dividends and as an increase in the share price.
There could be some kind of restrictions in order to keep the producers having the majority balance in the ownership of the company, or even limitations to other members. This could be done by the introduction of different type of shares with different rights over profits and over voting power.

- Members: Any kind of business related to the supply chain
- Voting power: According to investment (different categories of shares) and control policy
- Dividends or bonus: Has to pay dividends according to investment
- Finance: Members, financial institutions, and external investors
- Entrance fee: Investment in company shares (different types of shares: farmers - investors)
- Member’s agreement: Very important to clarify roles and responsibilities
- Entrance fee: Investment in company shares (different types of shares: farmers - investors)
- Retirement payment: Sell the shares at market price (could have some restrictions)

General advantages

There is a huge potential for the synergy coming from the participation and commitment of business from the whole supply chain. With no doubt it will increase the coordination, efficiency and long-term competitiveness of the participant members. It also brings a clear sense of belonging and high degree of commitment from its shareholders. There are very tangible benefits including a very good evaluation of the management. The bargaining power increases exponentially as well as the flow of information between its participants. It is an <u>ideal model to compete against other supply chains and to develop new product or markets.</u>

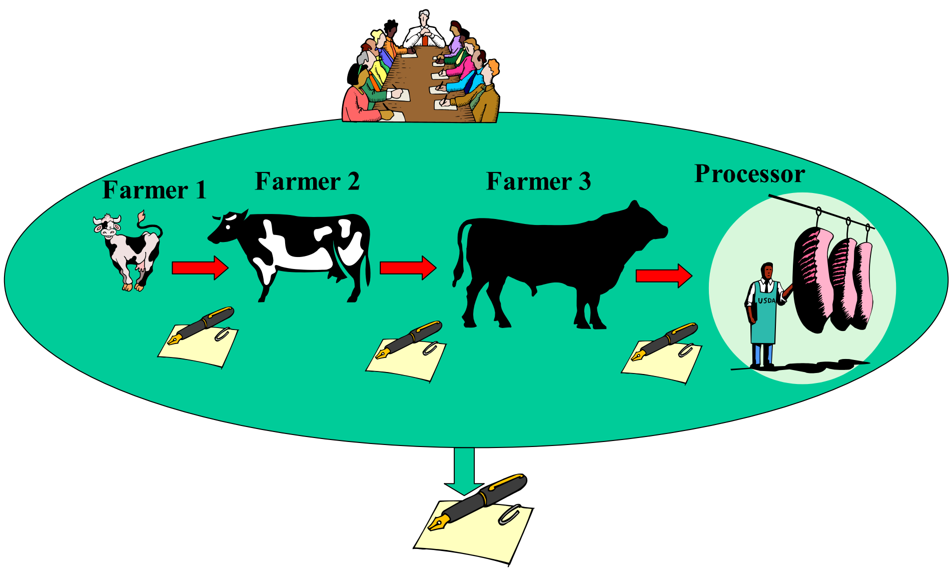
Models	**Netassoc**	**Netcoop**	**Netbus FBM**
General description	It is a place where supply and demand mach their needs under very little supervision or control. Extremely flexible for the members. Loose tights, no entry or exit barriers. Could have contracts between participants.	It is a flexible model that changes its shape according to the demands. Similar to a New Generation Cooperative. Each participant owns "participations" and "rights". Could be use as a kind of federative model.	It is a flexible model that changes its shape according to the demands. It is a normal company but its shareholders could come from all the supply chain
Shape	Network- club- association	Network of farmers or FCB	Network of business
Legal framework	Association / group	Limited company or coop	Limited company
Orientation / scope	Horizontal & Vertical	Horizontal	Horizontal & Vertical
Members / shareholders	Mainly farmers but could be some processor	Farmers or coops or FCB	Any kind of participants of the supply chain.
Participation /votes	1 member 1 vote	According to use, "participation and rights"	According to investment (different categories of Shares) and control policy
Dividends or bonus	No need	Should pay some kind of benefits according to use or participation. Also the rights pay bonuses.	Has to pay benefits according to investment
Finance	Low requirements. Funded by the members	Members and financial institutions	Members, financial institutions, and investors
Governance	No problem, standardise contracts	Extremely important	Extremely important
Directors	Representative of the members	Members and externals. Business skills	Members and externals. Business skills
Members agreement	No need, the contracts could do the work	Recommendable, but not indispensable at the beginning.	Very important to clarify roles and responsibilities
Entrance fee	Insignificant, for the paperwork	Purchase of "participations" and "rights"	Investment in company shares (categories, farmers, investors)
Retirement payment	No need	Participations are tradable, sell them (could have some restrictions)	Sell of the shares at market price (could have some restrictions)
Membership	Open	Could be open until the capacity if full (mainly processing)	Could be open until the capacity if full (mainly processing)??
Advantages	Get supply and demand together. Production according to some requirements. Increase communication and flow of information. Extremely flexible for the participants. Not initial investment. Basic governance structure (arbitrary). Increase the scope of farmers into collaboration. Could be part of the NetCoop	The Netcoop introduce the needed consumer and supply chain focus. Clear sense of pertinence and high commitment of the members. Tangible benefits (dividends and bonus) and better evaluation of the professional management. . Production according with costumers' requirement. Scale. Could be used as a Federated model.	Participation of the whole food chain. Clear sense of pertinence and high commitment. Tangible benefits and better evaluation of the management. Increase flow of information. General Scale. Ideal to compete against other supply chains and to develop new product or markets..

Appendix 8.6 Diagrams of the Models

NETASSOC

General description	This model allows a group of farmers to collaborate in a formal business relationship. The volume, price and quality of the products are agreed in advance. Contracts
Shape	Network- club- association
Legal	Association / group
Orientation	Horizontal & Vertical
Votes	1 member 1 vote
Finance	No need
Directors	Low requirements. Funded by the members
Agreements	No need, the contracts could do the work
Entrance fee	Insignificant, for the paperwork
Retirement	No need
Membership	Open

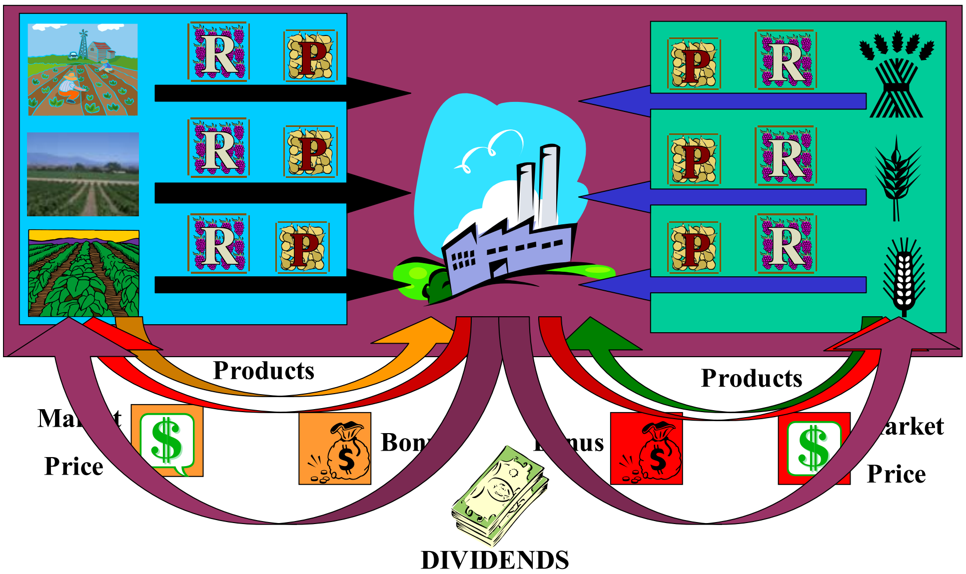
NETASSOC



NETCOOP

General description	Similar to a New Generation Cooperative. Each member owns "participations" and "rights", which will be in relation with the amount of products allowed to be traded, and to the voting power
Shape	Network of farmers or FCB
Legal	Limited company or coop
Orientation	Horizontal
Votes	According to use, "participation and rights"
Benefits	According to use,"Rights"pay bonuses and"participations"pay dividends
Finance	Members and financial institutions
Directors	Members and externals. Business skills
Agreements	Recommendable, but not indispensable at the beginning
Entrance fee	Purchase of "participations" and "rights"
Retirement	Rights are tradable, sell them (could have some restrictions)
Membership	Could be open until the capacity if full (mainly processing)

NETCOOP



NETBUSS

General description	It is a normal company but its shareholders could come from all the supply chain. It is a network of businesses that form a company
Shape	Network of business
Legal	Limited company
Orientation	Horizontal & Vertical
Votes	According to investment (different categories of Shares) and policy
Benefits	Shares pay dividends (according to investment)
Finance	Members, financial institutions, and investors
Directors	Members and externals. Business skills
Agreements	Very important to clarify roles and responsibilities
Entrance fee	Investment in company shares (categories, farmers, investors)
Retirement	Sell of the shares at market price (could have some restrictions)
Membership	Could be open until the capacity if full (mainly processing)??

NETBUSS

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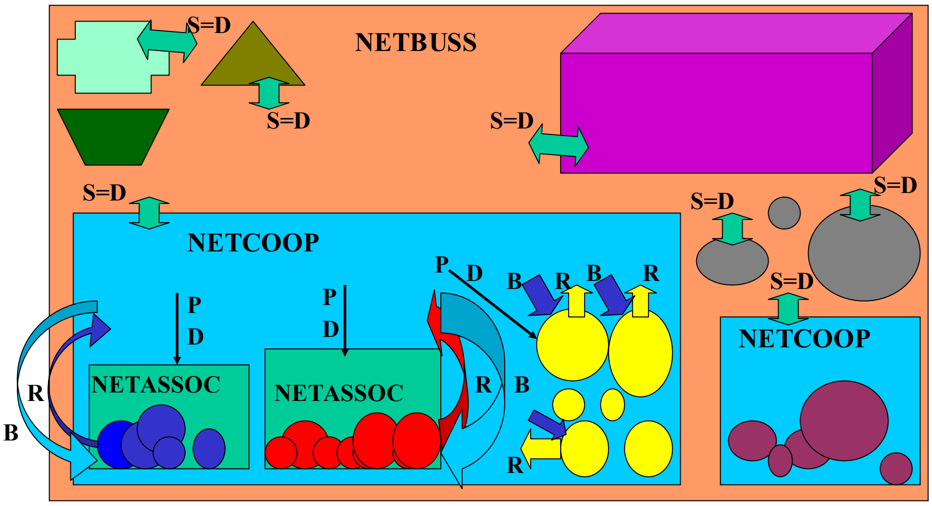
Network of business

Votes according to investment (different categories of Shares) and policy

Shares pay dividends (investment)

Flexibility



Appendix 8.7 List of interviewees (removed for confidentiality)

Appendix: 9.1 Results 2nd Round (Compiled)

Group	Model 1	Model 2	Model 3	General Comments
Academics-	Price grid from an independent organization. Difference with normal contracts? (sharing of information and problems) Good for small scale, commitment is too low for big business GOOD AT SMALL SCALE	Ownership of the assets? Difference with LLC or coop? 100% exclusivity? If price is higher outside? Who plant what? Risky if invest too much New generation farmers Dividends risk to look only short term, should be long OWNERSHIP OF ASSETS LLC or COOP	Too ambitious? Retailers already own the chain.(so lets do it at small scale) Farmer should invest in knowledge. Not on this mature market. <u>RETAILERS OWN THE CHAIN</u> <u>WHY JOINT IN</u>?	Control in those who add value? And rewards investments Switch if add value, uplift, or risk mitigation? Something different Management Difficult for mature markets, never in cost or brands. Telescope is too big. New knowledge? <u>MANAGEMENT PROBLEM AND SOLUTION</u>
Advisors-	Needs a hub (non-farmer? /entrepreneur) Personality of the farmers (get on / trust) Internal competition NEEDS A DRIVER/HUB	If shares are worthless? Variability of farmers? Big to add value, not lose identity. MEMBERS SELECTION	Who pay overheads? How retailers pay (price?)? Is processor is not efficient? How to benchmark? Why joint if I am making money? PRACTICALITIES: WHY, HOW, HOW MUCH, IF NOT	Could be expensive to run Management. MANAGEMENT
Companies and others	Control product quality Business angels and government (external help, direction). Starting point BUSINESS GUIDE/PARTNER	Build on success and grow BUILD ON SUCCESS	What retailers win? Similar with interchangeable shares with contracts Needs sharing of information? (opportunistic behaviour) Waitrose does the exercise of being in others business. WHAT RETAILERS WIN?	Where is the consumer dimension? Set up small or big is the same? Scale attract people. Coop values in a plc, because dividends is a cost. CONSUMER DIMENSION
Outcomes of internal discussion	Models 1, 2, 2A are working in other places, may different name. What is the new knowledge?	Div shows rewards for good management appointments, entrepreneurship. Importance of participations. Pay for performance	This model could evolve into a network of netcoops (global) Farmer control could limits its size. Include closer non farmer business (scale/standarization)	Model 2A, federative model, as a transition from 2 to 3, and some will go to 3 (corporate structure) small retailers to supply something to compete with Tesco