Good cooperative practice with special focus on the development in Finland

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FARMERS' COOPERATION IN LATVIA AND OTHER COUNTRIES
29.10.2009. Riga, Latvia, Hotel Xcelsus,

Structure

1. THE DEVELOPMENT OF COOPERATION IN FINLAND

1.1. What is cooperation?

1.2. History of cooperation in Finland

- Introduction of cooperation
- Cooperation in changing economic systems
- Statistics

2. GOOD COOPERATIVE PRACTISE

(Factors promoting a successful cooperation)

2.1. External factors

2.2 Internal factors

- Modern attitude to the economy of co-op
- The cooperative idea should be a strength

3. AGRIMARKETS IN THE NORDIC COUNTRIES ARE DOMINATED BY COOPERATIVES

3.1. Table

3.2. Meat market

3.3. Dairy market

1.1. What is cooperation

ICA Values 1995

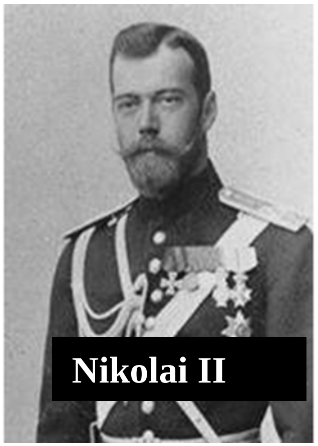
- Self-help
- Self-responsibility
- Democracy
- Equality
- Equity and solidarity
- Honesty
- Openness
- Social responsibility
- Caring for others

www.coop.org/ica/info/enprinciples.html

1.2. History of cooperation in Finland

- Introduction of cooperation
- Cooperation in changing economic systems
- Statistics

The introduction of cooperation in Finland was connected to the struggle for independence



Finland** a**utonomous in the Russian empire after 1809 when it was taken from Sweden:
• *own administration, languages, laws, money, post*

February manifesto 1899 **given by tsar Nikolai wanted to integrate Finland into the empire.**
• russification
• intellectuals and artists mobilise
• Finlandia, Pellervo

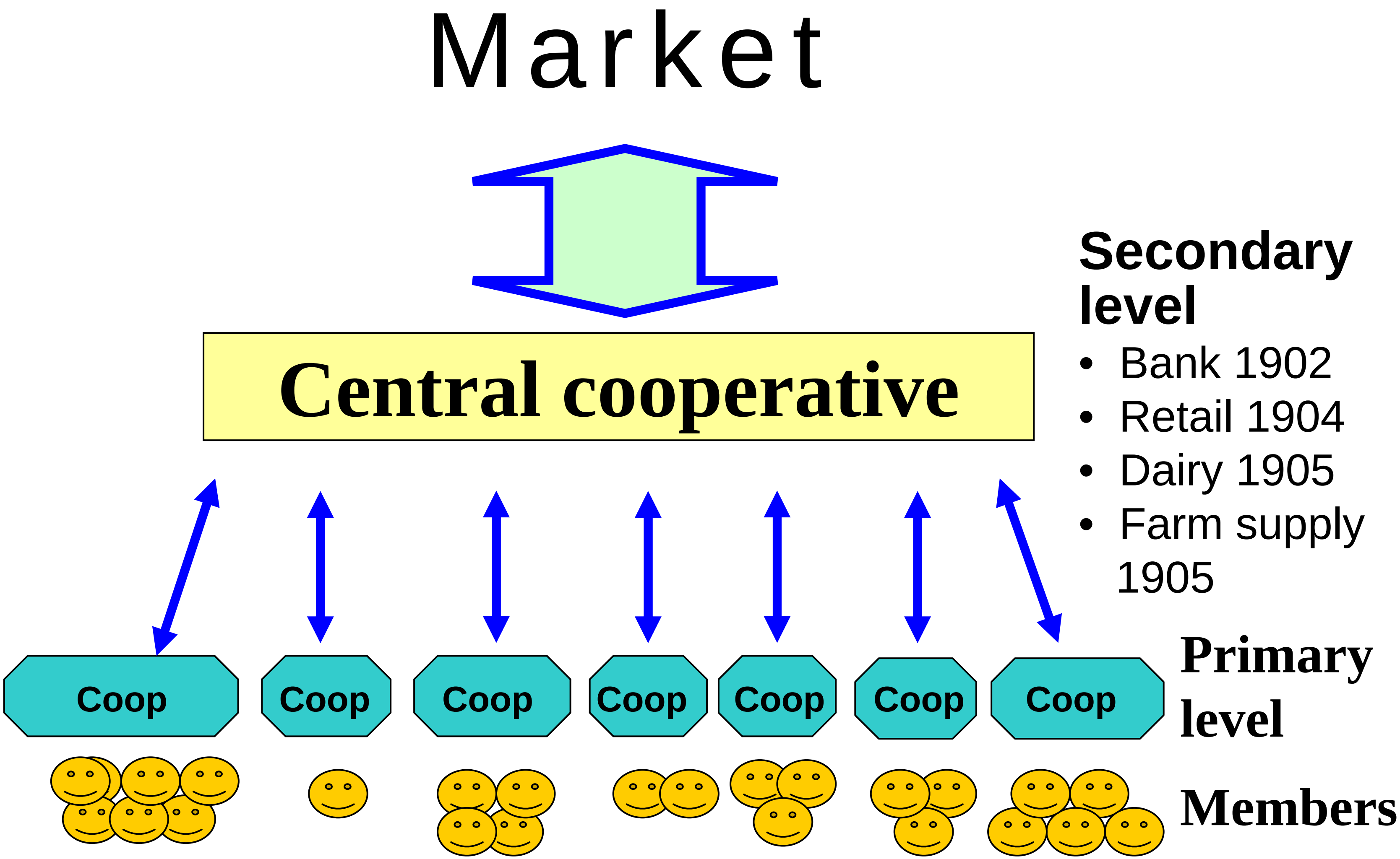
Conditions in Finland 1900

- 90 % of population bound to agriculture
- Poverty especially in rural areas
- Mostly exchange economy in rural areas
- After the foundation of Pellervo cooperation spread rapidly over the country. Ten years later there was a consumer coop, a cooperative bank and a cooperative dairy in almost every community.

Why did cooperation spread so quickly after introduction?

- Pellervo worked hard to spread cooperation. Spokesmen were sent all over the country.
- Clear demand for cooperation especially in the rural areas
- No services or of poor quality, overpriced goods , weak competition, no credit system, no market for agricultural goods – cooperation was simply a good solution.
- The cooperative network model was built in just a few years: central bank in 1902, central retail cooperative 1904, central dairy cooperative 1905.

Cooperative network model



Finland independent December 1917

The cooperatives in changing economic systems throughout the years

Free market

during the first two decades of the 20th century

- Rapid foundation of cooperatives in Finland

Protectionism

started in the 1920's , very strong after World War II

- Cooperatives played a special logistic role behind the border barrier
- Economic aspects of business were often disregarded in the closed economy.

Rapid change in economy the last 20 years

Market economy, globalisation

- Financial markets started to open in the late 1980’s
- The fall of the iron curtain leads to a harder market economy everywhere
- Deep depression in Finland in the beginning of the 1990-ties. Exports to Soviet collapse.
- Finnish EU membership 1995 (opening of markets for agricultural products in the EU)
- WTO (wants opening of markets for agricultural products in the world)
- Globalization

Some thrive, some survived, some died

- Some co-ops managed to find competitive advantages in a new way and managed to change their corporation culture to fit open market economy and hard competition
  - Quick growth in both consumer co-ops and co-op banks since 1990 and now they have surpassed their competitors = Market leaders
  - Also some agricultural cooperatives began their developing processes in the 80's and were in good condition in the 90's (Valio-dairy cooperatives and Atria-meat cooperatives).

- Some were late or lost
  - Those who began their developing processes in the 90's had some difficulties, but found their way (LSO- meat cooperative).
  - Some co-ops failed – the consequences were either bankruptcy (small dairies, Novera) or debt restructuring (workers' consumer cooperatives, one meat cooperative)

Why did some fail?

- Bad economy and structure developed during the closed period
  - Unable to perform structural change
- Top driven by managers
  - administrators and members often unaware of the situation in the coop
- Unskilled administrators
  - Political culture
  - Unable to see or accept that times are changing

Summary - Cooperation in Finland

- The total number of cooperatives reached its peak in the 1930s: **6 000.**
- In 2008, the number of cooperatives was **4 100** with **4 million** memberships - Finland has few, but large cooperatives
- Finland is the most cooperative country in the world with respect to total turnover of cooperatives in relation to GNP or total number of members in relation to population.
- Of the Finnish adult population **84 %** are members in at least one cooperative - average **2,1** memberships per person (survey 2007)

Summary - Cooperation in Finland, continued . . .

- At least 75 % of the Finnish households are members in a consumers cooperative. The Finnish food chain from stable to table is very cooperative: cooperatives have a market share of **96 %** in milk, **82 %** in meat
- Consumer cooperative have a **44 %** market share in sales of daily goods and cooperative banks **35 %** in deposits
- The forest-owner cooperative Metsäliitto (turnover EUR **6,5 Bn**) is together with Arla after FrieslandCampina and Vion the third largest producer cooperative in Europe
- New rise in the 1990s of so-called new cooperatives. About 200 new cooperatives per year in new areas: water-, social-, worker- etc.
- There are also big mutual insurance companies

Cooperatives and insurance associations in Finland 2008

Facts and Figures

	Number of coopera-tives	Members in coopera-tives	Person-nel in group	Turnover in group Mill €	Market share %
Meat cooperatives	5	13 300	13 900	3 750	1) 83
Cooperative dairies	26	11 500	4 900	3 100	2) 97
Egg cooperatives	2	350	140	55	3) 47
Vegetable cooperatives	4	500	60	50	15 - 40
Forestry cooperatives	1	129 000	17 500	6 450	4) 36
Animal Breeding	4	28 000	470	30	100
Hankkija-Agriculture Ltd	-	-	(1 400)	(1 060)	42
Consumer cooperatives	34	2 155 000	41 000	5) 12 600	44
Cooperative banks	270	1 350 500	13 500	6 500	37 6)
Insurance associations	84	535 000	1 000	300	9 7)
TOTAL **	430	4 223 150	92 470	32 835	
Small new cooperatives	2 790				

** Agricultural supply limited company, a subsidiary to largest consumer cooperative SOK*

*** Total number of cooperatives in Finland according to Trade Register was 4 100 at the end of 2008.*

1) Meat from producers
2) Milk from producers
3) Eggs from producers
4) Share from market logging from private forests
5) Consumer cooperatives sales
6) Deposits
7) Premium income

2. GOOD COOPERATIVE PRACTISE

Factors promoting a successful cooperation

2.1. External factors

2.2. Internal factors

- Modern attitude to the economy of co-op
- The cooperative idea should be a strength

FACTORS PROMOTING A SUCCESSFUL COOPERATION

2.1. External factors 1

Conditions in society

- Stability in society
  - Many good cooperative projects have died in revolutions etc.
  - No corruption
  - As a rule co-ops manage better in the more developed western world than in developing countries
- Modern legislation, good governance in society
  - Cooperative laws
  - Company laws
  - Audit act, Bookkeeping act
  - many more
- Functional financing systems

2.1. External factors 2

Conditions in society...

- Society supports and understands cooperation
- Information and advice how to start a co-op available
- Research on cooperation is an advantage
- Education in economic schools and universities
- Demand in society
  - when cooperation was introduced into Finland there was both a strong economic and a political demand
  - cooperation is difficult to reintroduce in the former socialistic European countries. Why: Negative memories, negative attitude?
  - cooperation is more difficult to introduce into functioning markets than to malfunctioning markets
- In southern Europe there are vast tax benefits and other economic support for cooperatives. Cooperation a part of social economy.

2.1. External factors 3

Conditions in society…

- Having strong independent cooperative organisations surely helps!
  - lobby
  - information
  - training

Both general and sector organisations

PELLERVO

CONFEDERATION OF FINNISH COOPERATIVES

MEMBER ORGANISATIONS (400)

ANNUAL MEETING

DELEGATION (25)
Chairman **Erkki Vähämaa**

BOARD OF DIRECTORS (9)
Chairman **Marcus H. Borgström**

MANAGING DIRECTOR
Veikko Hämäläinen

COOPERATIVE SERVICES
Sami Karhu

SWEDISH COOPERATIVE SERVICES
Per-Erik Lindström

PELLERVO MAGAZINES
Teemu Pakarinen

LEGAL SERVICES
Kari Lehto

COOPERATIVE DELEGATION
Marcus H. Borgström

PELLERVO TRAINING INSTITUTE LTD.
Kari Huhtala

PTT - Pellervo Economic Research Institute
Pasi Holm

FOOD & FARM FACTS LTD (TNS Gallup), Market research
Anne Kallinen

PELLERVO PUBLICATIONS SERVICES LTD.

BRUSSELS OFFICE
Jonas Laxåback

JOINTLY OWNED ASSOCIATIONS

www.pellervo.fi

The three main points of Pellervo's strategy 2006-2011:

To promote cooperation in a more and more international market economy Pellervo will

1. Improve the professional and intellectual skills of the administrators in cooperatives (training, publications)
2. Promote and develop competitive operational preconditions for cooperatives (lobbying)
3. Promote and develop the cooperative idea and the strategic advantages of user-owned enterprises and encourage the foundation of new cooperatives in all sectors of economy (advice to small new cooperatives)

2.1. Internal factors 1

By developing the internal factors, **good cooperative practise** is achieved

- Good, functional and fair by-laws (rules)
  - Who can join? What do members pay? How do members gain? How divide surplus?
- Clear and simple purpose
  - The purpose paragraph is the most important paragraph in the rules of a cooperative
- Homogenous members
  - The more homogenous members the better
  - When the members have the same need they cooperate better
- Good organisation within the co-op
  - Rational internal organisation and structure
  - Good working methods: Should be discussed in the board regularly

Internal factors 2

- Sharp corporate governance (Owner control)
  - The member is a genuine owner of his/her cooperative
  - The members should have an owner’s attitude
  - Passive members ---> Passive administrators ---> Bad governance ---> Bad management ---> No success

    Is there a connection?
- Good internal control and audit
  - Control is not a question of mistrust, it should be routine
- Good composition of the board
  - The board should have diverse expertise
  - External board members?

Internal factors 3

- Efficient education of administrators
  - Cooperative organisations
  - Training institutes
- The administrators should be properly awarded for their job
  - Important to keep administrators motivated
- Information to members
  - Activation of members
  - Transparency
- The managers have to be professionals
  - **choosing managing director is perhaps the most important decision that the administrators ever make**
- Important to understand the roles
  - administrators and operative managers have different tasks and roles
- Off course all personnel in the cooperative should be professional and well motivated

Modern attitude to the economy of co-op

- A co-op is an enterprise!
  - The idea is to do business!
- A co-op has to be profitable
  - it should be able to invest in its own development
- The co-ops have to be efficient and cost effective
  - They compete with businesses that aim to maximise their efficiency
- Co-ops need capital
  - The members need to understand that they have to put in enough member capital. In Finland member investments may be over 100.000 € for large members in some agricultural cooperatives.
- Owners of Finnish co-ops have used different tools to raise capital for the enterprise
  - Some Finnish co-ops have even formed public subsidiaries. Atria, HKScan (meat), M-Real (forest), Pohjola (Bank) are all plc:s

The dual nature of a cooperative

- balancing between doing business and being a social community

Soft Values:

Honesty – Openness
Equity – Solidarity
Vital cooperative values that bind the members together

Hard Values

The members
With economic and social expectations

Member administration

Chair persons

Managing director

Wanting good economic results

Cooperative as a community

"Cooperation is solely ideology"

Cooperative as a business

"Using all the legal means to succeed in business"

Modern attitude to the co-op

The chairman (+ administra-tors) and the top managers of co-ops are responsible for the prevailing attitudes

- **A good co-operator has to be able to combine hard economic values with soft social values (the heart of a socialist and the head of a capitalist)**

Modern attitude to the co-op

- The co-op works for its members and only for its members
  - It is destructive if the co-op or its managers or administrators have other goals (for example political, personal or other interests). After being elected the administrator works solely for the cooperative
- Farmers´ producer organisations and other trade unions are separate organisations and have separate goals
  - These activities should not be mixed and the different tasks should be understood by both parts

The cooperative idea should be a strength

- The common cooperative idea and principles are strengths in a popular movement
  - “Together we will be stronger”
  - We don’t have Carnegie or Rockefeller, but we have the cooperative movement
- Attitudes in society today favour the values of cooperation
  - Attitudes are dual or polarised: hard-soft.
- The top managers and administrators of co-ops should understand and value the basic idea of cooperation. They must find new tools to operate on a modern and competitive way.
  - A good co-operator can balance between the values

3. AGRIMARKETS IN NORTHERN EU ARE DOMINATED BY COOPERATIVES

3.1. Trends in the Nordic countries

3.2. Table on Nordic agri-business

3.3. Sweden has lost most of its meat processing to the Finnish cooperative hybrids

3.4. Hard competition in the dairy sector in northern EU

3.1. TRENDS IN THE NORDIC COUNTRIES

- The retail markets are dominated by large actors
  - Two biggest have more than 75 % of groceries
  - It is very hard for small producers to get their products on the shelves of the retail-shops
  - Brands are important and the retailers try to promote their own private brands
- Also agri-business is concentrated
  - One or two actors usually dominate 80+ percent of the domestic production
  - Large size gives negotiation power towards retail
  - Developing of brands are also important for the producers
- Small actors don’t manage
  - They are bought out by the big ones

	Finland	Sweden	Denmark
Milk 	**VALIO** 1,8 Bn€ **Arla-Ingman** 0,3 Bn €	Arla **Milko** 0,2 Bn€ **Norrmejerier** 0.15 Bn€ **Skånemejerier** 0,3 Bn€	**ARLA** 6,6 Bn€
Meat 	**Atria** 1,4 Bn€ **HKScan** 2,3 Bn€	**Swedish Meats** (Scan AB owned by HKScan) 1,1 Bn€ Atria Danish Crown	**Danish Crown** 6,3 Bn€ Tican 0,55 Bn€
Grain, farm input 	**Hankkija-Agriculture Ltd.** 1,1 Bn€	**Lantmännen** 3,9 Bn€	**DLG** 5,0 Bn€

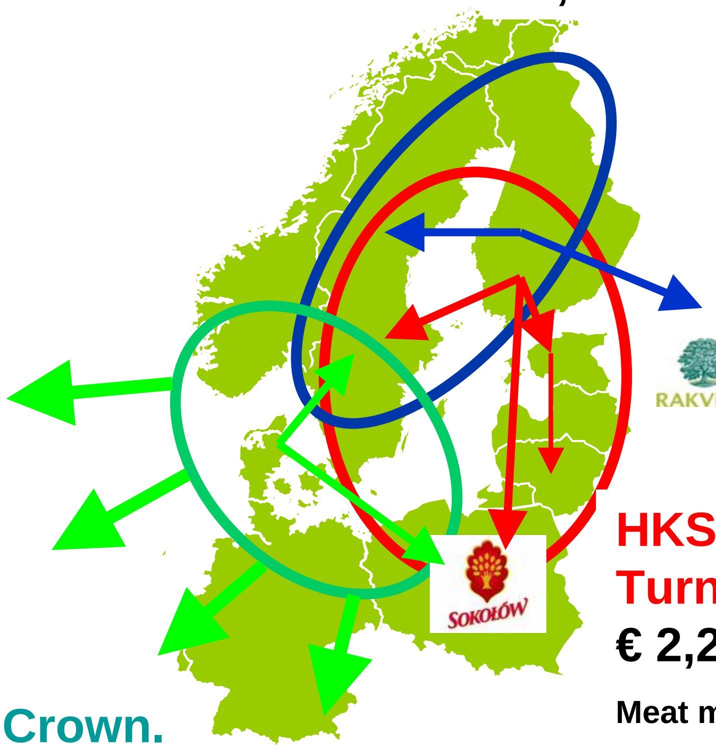
3.2. Sweden has lost most of its meat processing to the Finnish cooperative-hybrids

- **HKScan:** public company controlled by a cooperative. Expanded to Estonia (Rakvere) in 1998, to Poland (Sokolow) 2002 and to Sweden (Scan AB) 2007. Cooperative **Swedish Meats** provides Scan with meat.

- **Atria:** public company controlled by three cooperatives. Expanded to Sweden in the 1997. Now expanding to Russia.

- **Danish Crown,** cooperative: Leader on the world market in pig meat exports. Owns Sokolow together with HKScan.

Atria. Turnover
€1,4 Bn



Danish Crown. Turnover € 6,3 Bn

HKScan. Turnover
€ 2,2 Bn

Meat markets

Estonia 35 %

Latvia 18 %

Lithuania 10 %

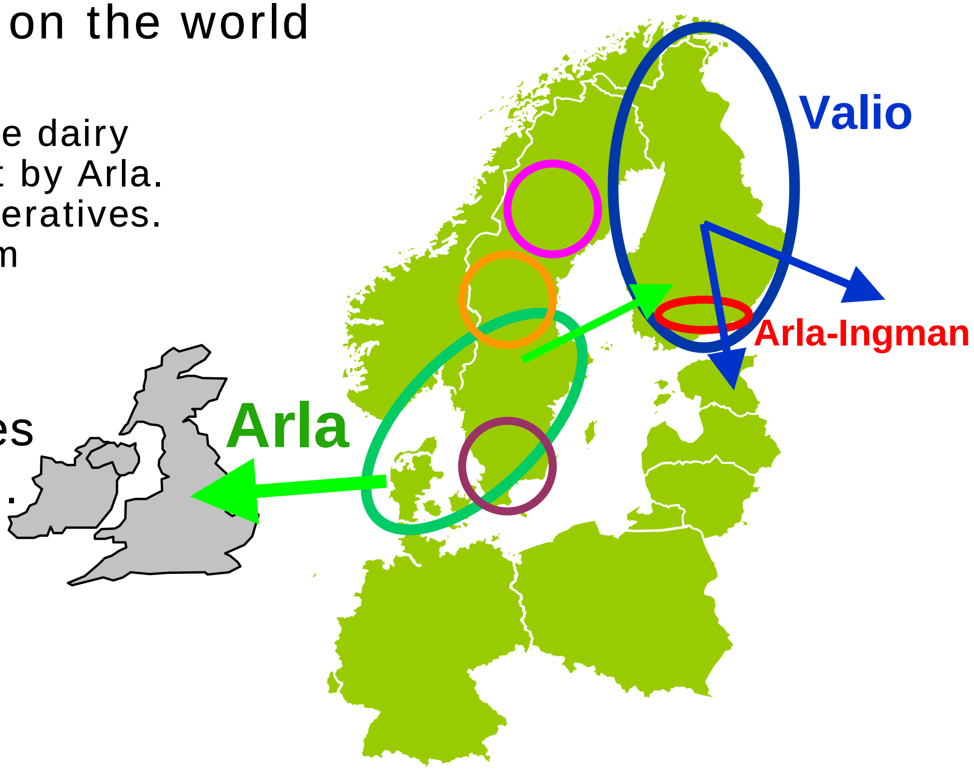
Poland 10 %

3.3. Hard competition in the dairy sector in northern EU

Arla: Danish-Swedish dairy cooperative (8000 members 6,5 bn € turnover). Strong position and production in Great Britain. Strong on the world market. 15% in Finland.

Arla-Ingman: Ingman was a private dairy company in southern Finland bought by Arla. Major part of milk from Finnish cooperatives. Recently started imports of milk from Sweden to Finland.

Valio Ltd: Dairy company run cooperatively by ca 15 cooperatives (10000 members 1,8 bn turnover). Strong domination in the dairy sector in Finland. Exports 30 % of turnover, mainly Russia. Dairy in Estonia.



Norrmejerier. Small cooperative dairy in northern Sweden. Turnover 150 million €.

Milko. Small cooperative dairy in central Sweden. Turnover 200 million €.

Skånemejerier. Cooperative dairy in southern Sweden. Turnover 300 million €.

Thank you!

http://www.pellervo.fi/finncoop/index.html

PELLERVO

Swedish Cooperative Group, Director

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The strengths of agricultural producer cooperation

- Security to deliver
  - Sour milk is hard to sell
- Negotiation power
  - In the Nordic countries retail is very concentrated: two biggest over 75 %.
- Division of costs
  - Cheaper logistics
  - Processing possible
  - Big size is necessary for R&D

Defending home markets

- More than 80 % of food consumed in Finland is of domestic origin. Finnish consumers prefer Finnish food!
- Campaigns. Good food from Finland
- Producer prices in Finland are not higher than in EU, except for milk. Difficult market for importers in Finland
- Strong concentration and structural change on process level
  - Accept economic and political realities. Structural change on farm level inevitable.
  - Structural change in milk production on farm level difficult
- Small processors have not had success with bulk products. Unique

Reasons why cooperatives are formed

- Protect members from poor quality, unsafe services and overpriced goods that result from weak competition;
- Gain access to markets where infrastructure is weak or expensive (eg packaging, transport, distribution);
- Provide services that are not profitable to commercial operators (such as in remote areas);
- Capture a share of value added from commercial provision;
- Secure economies of scale with buying or selling power.
- Specifically, cooperatives are formed to correct imbalances that develop when traditional investor-owned companies operate in market economies.

F&A&H suppliers are dealing with powerful customers

Top 10 retailers
(food sales for 2006 in $bn)

1. Wal-Mart Stores	159
2. Carrefour	72
3. Tesco	53
4. Ahold	47
5. Lidl	46
6. Kroger	43
7. Rewe	41
8. Aldi	40
9. Edeka	40
10. Metro	36

As a % of the total market: 10%

Top 10 foodservice
(total sales for 2006 in $bn)

1. McDonald's	57
2. Yum! Brands	31
3. Compass Group	20
4. Sodexho Alliance	16
5. Wendy's	14
6. Burger King	13
7. Aramark	12
8. Accor	9
9. Subway	9
10. Starbucks	8

As a % of the total market: 9.1 %

Top 10 food manufacturers
(food sales for 2006 $bn)

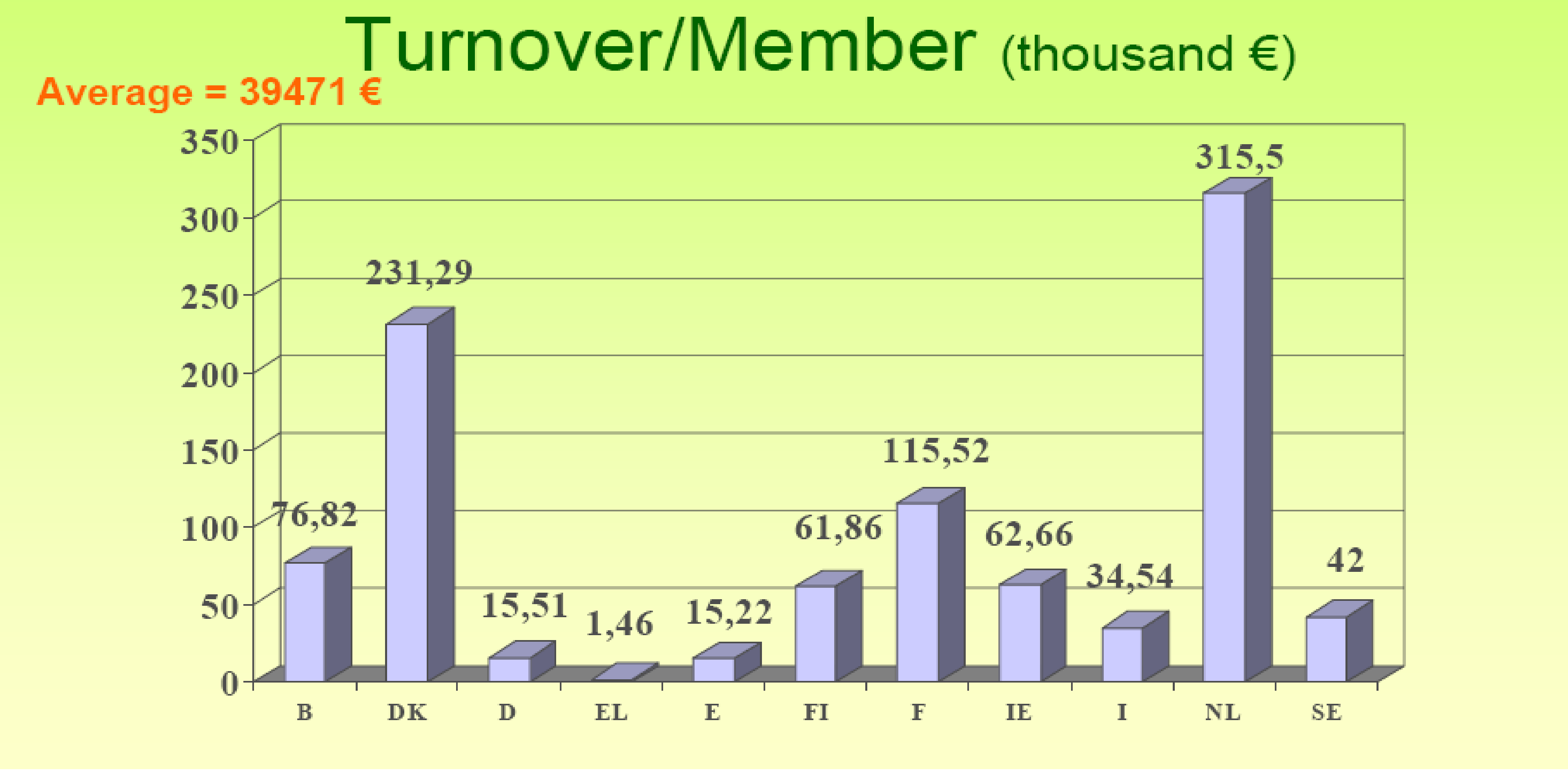
1. Nestlé	65
2. PepsiCo	35
3. Kraft Foods	34
4. Unilever	27
5. Tyson Foods	26
6. Coca-Cola Co.	24
7. SABMiller	19
8. Danone	18
9. InBev	17
10. Heineken	15

As a % of the total market: ca.

Source: Rabobank, 2007

Period	Farmers	Manufacturer	Wholesaler	Retailers
-1900	Dominant	Minor	Major in Few trades	Very Minor
1900-1950	Declining	Dominant	Major in many trades	Minor
1960-1970	Minor	Dominant	Dominant	Minor
1980-2000	Very Minor	Declining	Rapidly declining	Dominant

Source: C. von Schirach-Szmigiel, Unilever Board Member



Turnover/Member (thousand €)
Average = 39471 €
350
300
250
200
150
100
50
0
76,82
231,29
15,51
1,46
15,22
61,86
115,52
62,66
34,54
315,5
42
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