Cooperative Beehiving

By

Karin Hakelius1
Konstantinos Karantininis2

“When the population of a hive rises, one portion of the bees leave in a group, together with the queen and begin looking for a new place to settle” H. Yahya, “The miracle of the bee”, p. 112

1 Introduction

Cooperatives worldwide have been undergoing waves of successes and failures, many cooperatives cease to exist, others restructure, many have demutualized, while organizational innovations such as new generation cooperatives have emerged (Fulton and Hueth, 2009; Galor, 2008; Chaddad and Cook, 2004). The trend in the 1980s and 1990s has been for cooperatives to strive for economies of scale through mergers and acquisitions. Some farmers, however, have been following the opposite path of merging; instead these farmers de-associate themselves from large cooperatives and form smaller entities, just as bees swarm out of the old crowded beehive in search for a new one. Cooperative bee hiving is a very recent phenomenon. What drives farmers away from large cooperatives and what are the factors of success of the new “beehives” are in focus in this paper. We aim at identifying both pull and push factors in this bee hiving process and search why the new beehive is also organized as a cooperative.

First, we start with a historical background of the Swedish agricultural cooperative sector, with a focus on dairy and slaughter. Second, the theoretical framework drawing from transaction cost economics will provide hypotheses as to the economic and behavioural reasons for leaving a large and established cooperative and forming a new one. Third, a detailed analysis of two cases – one dairy and one meat cooperative from Sweden - will be presented. Finally, we summarize and conclude and present implications for further research.

2 Historical Background

Influenced by German and British experiences, the farmers of Sweden founded cooperative associations, starting in the end of the 19th and the beginning of the 20th centuries. Typically, the cooperatives were focusing on one line of production within agriculture, for example dairy, slaughter, and grain and crop. Somewhat later, during the 1930s, forest owner cooperatives were also formed.

In the middle of the 20th century, farmer cooperatives had reached a strong position in society – judging from the share of the population they represented at that time, i.e., 20 %. The reason was that the farmer cooperatives had helped greatly with the domestic food supply during the two world wars – being in direct contact with farmers and covering the entire nation. Hence, the Swedish government felt that the farmers should be protected against future competition, having as the main goal to keep an agricultural production leading to self-sufficiency of food products. A system of border protection, export subsidies, and pre-set domestic prices for agricultural inputs as well as outputs gradually was developed. In order to serve as a strong counterpart to the government, in the recurrent negotiations, a federated system was developed and in 1971 the Federation of Sweden...
Farmers (LRF) was formed, having both producer cooperatives, such as dairy, slaughter, and banking, as well as individual farmers as members\(^3\).

The farmer cooperatives reached high market shares under these circumstances: In the dairy sector, they represented 99% of the market and in the slaughter sector c 80% in 1997 (Nilsson, 1997). The cooperatives gradually grew larger through mergers, and in the case of the dairy sector, the largest cooperative in the end of the 1980’s was Arla, having 64% of the domestic market in 1991. Arla attempted to merge with a small dairy cooperative, which would have given Arla a 66% market share. This attempt, however, was eventually stopped by the Swedish Competition Authority in 1992. After this, Arla started to look for collaboration possibilities both in Finland and Denmark, an effort that was intensified once Sweden joined the European Union in 1995. Finally, a merger with Danish MD Foods, forming Arla Foods, took place in April 2000.

In 1971, there were 18 regional slaughter cooperatives, and one mixed (dairy and slaughter), joined together at the national level by an organization called Slakteriförbundet\(^4\). There were several mergers during the 1980s and 1990s, leading to five slaughter cooperatives by 1993. In 1998, the Slakteriförbundet changed name to Swedish Meats, and an attempt was made to merge all existing regional associations to Swedish Meats, but this attempt was unsuccessful. Eventually, the Finnish HK Ruokatalo bought what is now known as HK Scan AB\(^5\) in the end of 2006. It is important to stress, however, that both HK Ruokatalo and HK Scan AB are so-called Farmer Controlled Businesses (FCBs), as the majority of the votes are in the hands of farmer cooperatives: the LSO in Finland, and Svenska Djurbönder\(^6\) in Sweden.

In order to explore what factors may lead to the fairly new phenomena of farmers leaving large, established, farmer cooperatives, to form new small-scale cooperatives, and what the factors of success for the new cooperatives might be, we have studied two cases in Sweden: Sju Gårdar (meaning literary Seven Farms referring to the number of founding members – today there are six members who deliver milk) and Upplandsbondens (literary meaning The Uppland Farmers). Both cooperatives are active in the region of Uppland (see map) and both are producing organic products: the former is a dairy cooperative, consisting of six dairy producers; the latter is a slaughter cooperative, having 70 members. The Upplandsbondens was formed in the fall of 2006, while the Sju Gårdar in 2008. The empirical data about these cooperatives is partly from official documents and the internet (see homepage for Sju Gårdar and Upplandsbondens\(^7\)), partly from two interviews with the chairmen of the two small-scale cooperatives.

These two cases lead to questions such as: Why do members leave their cooperative? Can any member afford to leave the mother cooperative and form a new one and even compete with the original cooperative? Which problems does an exit imply? What are the factors leading to the success of the experiment/endeavour?; Why is the new entity also a cooperative?

The following Section focuses on the theoretical framework. The discussion in lieu of the two case studies follows.

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\(^3\) Today, the LRF has 29 cooperative organizations and 170 000 individuals as members. In addition, the LRF has 8 subsidiaries, for example working with insurance, financial consulting services, and media. Source: LRFs homepage.

\(^4\) The Slaughterhouse Association.

\(^5\) AB=IOF, or joint-stock company/corporation, if you like.

\(^6\) Swedish Animal Farmers.

\(^7\) Originally seven who planned to deliver milk, hence the name of the cooperative.

\(^8\) Unfortunately, only in Swedish.
3 Theoretical Framework

Below, the theoretical framework, based on transaction cost theory, will be presented. The theoretical framework leads to six hypotheses, which are discussed in the following Section.

3.1 Transaction Costs

3.1.1 The Starting-Point: From Stigler to Williamson

Let the cost structures of two vertically related processes be illustrated by the two sets of curves with subscripts 1, and 2 in Figure 1. The output of process 1, is input to process 2 in fixed proportions. For example, suppose that process 1 is farm milk production and process 2 is dairy processing. The figure is drawn to scale so that SAC=SAC_1+SAC_2, and LAC=LAC_1+LAC_2. For example the cost to produce q is at point A: Oc=Oc_1+Oc_2.

The minimum total average cost OC is reached at point B with total output Q, however, at this point neither of the processes is at the efficient scale: SAC_1 and SAC_2. In fact, the farm operations are larger than the efficient scale OQ>Oq_1, whereas the dairy operation operates at a scale less than optimum: OQ<Oq_2.

Figure 1: The cost structures of two vertically related processes.

Ideally, the absolute minimum total cost could have been reached if both operations were operating at L_1 and L_2 respectively, where the outputs are drawn such that Oq_2=2Oq_1. In other words, the optimum dairy scale Oq_2 is one that handles the output of two farm operations with Oq_1 each. This is illustrated in Panel (b) in Figure 1, where the dairy firm operates at point B' on the LAC and at output Oq_2. The average total cost is OC=Oc_1+Oc_2. This requires, however, that the dairy operation now handles the output of two (identical) milk farms. Whether the firm will operate at A, B, or B', will depend on the “extend of the market” (Stigler, 1951). Williamson (1975), argued that B' can be reached only in the absence of transaction costs. In our example, it would be costlier to manage and coordinate, the output of two milk farms instead of one, or because this would require some specific investments that the firm is not willing to undertake out of fear of holdup. The difference QB–qB' could be the level of such transaction costs. In the case of vertical integration, the marketing firm could also realise some further economies due to scope, and move to LAC’ and B’ (Willig, 1979; Teece, 1980).

Figure 2: Reaching the absolute minimum total cost through having two levels of operation, L_1 and L_2.

Transaction cost theory ascertains that the farms and the dairy decide to “govern” the transaction in a discretely cost-minimizing way (Williamson, 1985)

3.1.2 Enter transaction costs

Let us take two dairy farms, farm Type-I and farm Type-II with corresponding average production costs apc_I and apc_II in Figure 2. Type-I farm has higher production costs, however the farmer-owner is heavily involved in the cooperative board. One important reason for the higher production costs for Type-I farmers is that these farmers will have to have more employees at the farm, in order to be able to devote time to the cooperative board. The farmer-owner in the Type-II farm is more efficient, and is not involved in the cooperative besides its business part. The underlying assumption is that a Type-I farm has a comparative advantage in “organizational technology”, while farm Type-II has a comparative advantage in production technology – and vice versa: The farms of Type-I are relatively productively inefficient, while Type-II farms are inefficient when it comes to organization and cooperation with other farms. In fact, not both assumptions are necessary, the model would work as long as some farms are relatively better “organizers” and better “co-operators” than others. The right-hand panel illustrates the downstream costs of the cooperative dairy APC. Add transaction costs of internal and external organization of the cooperative ATC, and the total cost is APTC. Assuming that the coop has some form of market power it manages to sell the final product at a price P’. At this price the Type-I farm barely covers total costs (production plus downstream costs) apc_I. Note that at a total output Q' the average total
processing plus transaction costs at the cooperative level is $c_1$. All member-farms internalize this cost raising their grand total cost per unit to $\text{apte}^1$ and $\text{apte}^{1\text{I}}$ respectively. This is an equilibrium since no farm has an incentive to move. Now enter the potential for product differentiation at small scale.

### 3.1.3 Product Differentiation at Small Scale

While large farm cooperatives often involve themselves into product differentiation in large scale, for example, by introducing new types of processed products, yogurts, cheeses, etc., they are reluctant to introduce product differentiation that necessitates differentiation among producers. Organic production, or products with denomination of origin, are common examples of this phenomenon. One reason being a significant amount of remorse emerging when members receive different prices.

Let there be a potential for a differentiated product, say with a local brand name. This, in our example, is illustrated by a potential price $P''$. This is potentially feasible with a sunk investment in marketing, promotion, building the brand name, etc. Let us assume that only a small group of producers would qualify for such a program de facto – for example because of geographic location, or some previous sunk investment (for example in some technology, new variety or breed, etc). However, the cooperative management is reluctant to engage in such a process due to managerial inertia, or potential conflict between those who are eligible and those who are not, since the former group would receive a higher price. Hence we can put forward the first hypothesis:

**H1:** When an opportunity for product differentiation at small scale arises in the large cooperative is reluctant to pursue it and pay qualified farmers higher prices.

Several of those frustrated potentially eligible producers are tempted to search for ways to ripe these benefits, however there two barriers: Production economies of size, and transaction costs. The industry (say dairy, or meat processing) is characterised by very large economies of size in procurement, packaging, distribution, processing, etc. The scale at $Q'$ in Figure 2 is very large and requires the input of a large number of producers in the order of thousands. The potential differentiated market is very small relative to the scale economies in this industry. Let us say that demand conditions would require a total output of $Q^D$ (Figure 3) which would correspond to an average total downstream cost (processing plus transaction costs) of $c^D$. When this cost is internalised by the member farms it raises their costs to $\text{apte}^{1\text{D}}$ and $\text{apte}^{1\text{ID}}$ respectively. At these levels of costs the new business is uneconomical since costs exceed the expected price $P''$. How can the farmers that want to produce the differentiated product resolve this problem? The farms may outsource the processing and distribution operation, however, they have to resolve two more burdens: Sunk costs and transaction costs.

**Figure 3:** Product differentiation at small scale.

### Sunk Costs: Enter Santa Claus

As there is no free lunch, there is no easy way to start up a new business. Start-ups require investments in lawyers, brand name, market research, etc., and these costs are sunk and often not insignificant. It is a heavy burden for a small number of farmers to undertake. These farmers have then the following alternatives: One solution is to spread this over a large number of farmers; however this is by definition impossible because we assumed it is a small scale. A second alternative is to seek capital from outside investors or to borrow. "Going public" is not an easy endeavour for a small number of farmers entering a marginal business in the food industry. This is a model more suited to young start-ups in the Silicon Valley – not for farmers with dirty boots in the farm lands, producing bulk products. Borrowing is of course always an option but, again, it puts an extra burden which will have to be paid eventually and is very risky. Finally, there is “Santa Claus”, or a start-up subsidy from the state or elsewhere – for example from EU funds. This is not uncommon and as we will see in our case studies, this was successfully used by both of the newly formed cooperatives, primarily in the Upplandsbondens. This brings us to the second hypothesis:
What is required for a successful absorption of such outside funding is a serious and coherent plan, which is an outcome of a coherent and solid organization. To this we turn soon, but before this, let us look at the other piece of the puzzle: outsourcing.

**Out-Sourcing: A Source of Transaction Costs**

Given the very large economies of size, a newly formed small entity must rely on another large existing facility with excess capacity which is willing to serve the new beehive for a fee. This is a *sine qua non* – a necessary condition for the success of the quest for the new beehive. Hence the third hypothesis:

**H3:** An existing facility with excess capacity is necessary for the new beehive to outsource processing.

This requires a deal – a contract – and as transaction cost theory teaches us, this is loaded with transaction costs. Transaction cost theory has been discussed extensively - especially over the past three decades (A quest that started with Coase’s (1937) seminal article and continued with Williamson (1975; 1985); and many others to quote here). In brief, the principal hypothesis of the transaction cost theory can be summarized in three parts: (a) transactions differ in their attributes; (b) transactions are aligned with governance structures which differ in their cost competences; (c) governance structures are chosen by minimization of the sum of production plus transaction costs. Furthermore, the three pervasive attributes (dimensions) of transactions are (i) asset specificity; (ii) uncertainty; and (iii) frequency. Asset specificity can take several forms, such as physical, human, site, brand name capital, etc., and measures the degree to which an asset is redeployable outside the transaction. Uncertainty is important because it results into imperfect contracting and maladaptation of the transaction process. Frequency of the transaction “…bears both on the efficacy of reputation effects in the market and the incentive to incur the setup cost of specialized governance” (Williamson, 2004).

The analysis following the transaction cost approach is dynamic; it covers the transaction in its entirety, and can be divided into two stages: ex-ante – ex post. Ex-ante costs refer to those costs of searching, haggling, writing the contract, etc. While the emphasis of the property rights and agency theories is on ex-ante costs, Transaction cost theory focuses on ex-post costs. Hence we can put forward the fourth hypothesis:

**H4:** The sum of production and transaction costs will determine the feasibility of outsourcing.

### 3.2 The New Beehive Organization: Why a Cooperative?

The new beehive cooperative must deal with these transaction costs described above. The choice of governance is the key question at this stage. The farmers at the beginning attempt to achieve their goals through their original cooperative (what Hirschman (1970) calls “voice”). When this is not achieved, a small number of them consider splitting. Their alternatives are to a. join another cooperative – if it exists; b. sell in the spot market, i.e. to an existing IOF; c. form a new IOF; d. form a new cooperative. We will rule out options a. and b., in our case: a. because no other cooperatives exist in the market; b. because their idea of the differentiated production is new, and no IOF will be willing to invest on this, besides if the IOF does invest any long-term benefits will be taken by the IOF and not the farmers. Hence the farmers are limited in options c. and d. We will show why farmers chose option d. – to form a new cooperative.

We put forward two reasons that the choice of the cooperative form is appropriate in this case: one reason has foundations on agency theory and the second on transaction cost economics.

Agency problems. First, there is asymmetry of information between the farmers – especially Type-I, who are better informed about the quality characteristics and the potential of their products. As a result, an outside IOF will incur higher costs and bear larger risks than the Type-I farmers. A second reason is similar to the franchising problem: Ex post, after the launch of the differentiated product proves successful there will be a brand name capital created, having characteristics of public good for all participants, and with the potential to be appropriated by, for example the IOF. In order to safeguard the ownership of this brand name capital the cooperative is an appropriate governance structure (Hansmann, 1996; Holmstrom, 1999). Hence, hypothesis 5:
The hypothesis put forward by transaction cost theory is that the choice of governance structure is in a discrete cost-minimizing manner. So far, we have illustrated two types of production costs: the sunk costs and the processing costs. It is our hypothesis (supra) that both of them are outsourced: sunk costs from grants, processing costs from existing facilities with excess capacity. What with the transaction costs?

First, as we have seen above, due to low frequency there exist high set up costs of specialized governance. New organizations, such as a new cooperative, or a new IOF, do not come for free. There is a large amount of time and resources in negotiations, building trust, creating a common understanding, besides the “ink” costs of forming the new entity legally. It is our hypothesis that the farmers who chose to split and form the new beehive are Type-I farmers, and not Type-II, that is they are farmers who have a comparative advantage in “organizational technology”. We assume that there exists a specialization of labour among cooperative members. Some of them (Type-I) are consistently more involved in the administration and politics of the cooperative. Others are more passive members, minding more their farm enterprise or even being part-time farmers. Type-I farmers have the advantage of first, being close to decision making and corporate information, so they are the first to discover and spot the new opportunities. Also, having the experience of meetings and organizational matters are better equipped to set up the new entity at a lower transaction cost than their Type-II colleagues. Hence, just like in the bee colonies a group of bees swarms around the queen and leave to form a new beehive.

We shall maintain the assumption that Type-II farmers are more productively efficient than their Type-I counterparts who are better in politics and organization and not so good in farming. This we do only for illustrative purposes and in order to stress the importance of transaction costs in governance choice. Figure 4 illustrates the situation. The transaction costs structure the Type-I farmers face is associated with ATC\(_I\) and that for farmers Type-II with ATC\(_II\). The average transaction cost faced by Type-I group is \(c_I\) and \(c_{II}\) for Type-II respectively. On the left panel this corresponds to the total cost curves in the beehive cooperative a\(pte^{ic}\) and a\(pte^{ic}\) respectively. Under these circumstances, with the new price \(P''\), the Type-I is profitable in the new cooperative whereas Type-II are non-profitable. Therefore Type-I farmers chose to beehive cooperatively successfully:

H6: The Type-I farmers will form the new beehive as a cooperative.

**Figure 4:** The choice of cooperative governance by Type-I.

### 4 Empirical findings

Going back to our two cases – the *Sju Gårdar* and the *Upplandsbondens* – we are going to test the hypotheses presented above. As mentioned above, we have collected our data from written sources, the internet, one lecture\(^9\) held by Mrs Elisabeth Gauffin (January 31, 2011), and through performing two interviews. These took place on April 6, 2011, and October 5, 2011, respectively, and were held in the home of the interviewee. The interviews lasted around two hours each. Both interviewees are women, both chairwomen in their cooperative. In addition, they are sister-in-laws.

The chairman of *Sju Gårdar*, Mrs Elisabeth Gauffin, is an agronomist with a specialization in animal husbandry. She runs her farm together with her husband and children, and sat on the board of *Arla*, when she decided in 2008 to exit and start a small-scale cooperative together with a few farmers in the same geographical area.

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\(^9\) In the course “Cooperatives and Other Agri-Food Systems”, held at the Swedish University of Agricultural Sciences (SLU).
Two years earlier, Mrs Inger Gauffin Carlsson, also running her farm with her husband and children, decided to form a new small-scale cooperative that they named the *Upplandsbondens*. Up till then, the production on her farm included dairy cows, but since large investments were required and Inger wanted to devote a lot of time to board-work, it was decided that they were to focus on meat production.

As mentioned earlier, both beehive cooperatives are focusing on ecological production and they have limited their activities to the region Uppland, north of lake Mälaren (see map above). The main reason for leaving the large cooperative was that they did not feel that their requirement of premium prices for their ecological products was respected. In the case of the meat producing farmers, they also objected against the extensive transportation of the animals: c 275 km - or 3 hours - to the closest slaughterhouse in the city of Linköping. In both cases, voice was tried first, but failed. It was not only the farmers that eventually broke loose from their large cooperatives who practiced voice, many others did too, but only some took the step to exit. Elisabeth described those leaving *Arla* as having different educational background, being risk tolerant, willing to work together with others, tired of the old system and therefore willing to try something new. Albeit it being a big step, they can both go back to the old cooperative, should not the be hiving endeavour succeed: Elisabeth has to pay SEK 18 000\(^{10}\) in order to re-enter as a member, Inger has stayed as a passive member.

### 4.1 Production Costs

As mentioned above, the key reason for leaving the large cooperative and start a new, small, one was that the established cooperative did not adhere to price premium requirements. Producing ecological milk and meat is a more costly activity than producing conventionally. This depends, to a great extent, on the fact that all feed has to be ecologically produced and this leads to higher feed costs. In addition, the per-animal volumes produced are lower than in conventional production, adding to the unit costs. Hence, not receiving a premium price means economic difficulties on farm-level and this spurred some farmers to take the step and leave the large cooperative.

In both cases, the costs for juridical assistance, development of trademarks, and performing market analyses – what we refer to as sunk costs above – was highly underestimated. In addition, especially in the case of *Sju Gårder*, it has turned out that “ecological” was not the most important label – “locally produced was, however. The investments necessary has been putting great pressure on the financial situation of both beehive cooperatives. In the case of the *Upplandsbondens*, a great part of these costs have been covered by EU-support money (from the rural program) and they are worried what will happen if that money ceases to come.

The second part of the production costs, presented above, is the processing costs. Being small-scale organizations, it is not feasible to invest in processing facilities of their own. Instead, they have to rely on outsourcing the processing of their products. In the case of *Sju Gårder*, a medium-sized established cooperative (the *Gefleortens mejeriförening*\(^{11}\)) proved to have excess capacity and they managed to reach an agreement, which seems to work smoothly. The *Upplandsbondens* have a less stable situation when it comes to outsourcing their processing: They use a skilled man and have invested in processing equipment, but the impression we got is that this collaboration is somewhat less stable than between *Sju Gårder* and *Gefleortens mejeriförening*. In addition, the *Sju Gårder* has so far been more successful in creating a well-known brand as well as finding channels to reach the consumer.

In conclusion, we found that Hypothesis 1 holds – especially when it comes to handling the processing costs. By succeeding well with this, the *Sju Gårder* has been able to manage the sunk costs related to becoming an established market actor, while the *Upplandsbondens* have had to rely on EU-subsidies in order to manage their market entry.

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\(^{10}\) 1 SEK is about 0,15 USD, or 0,11 EUR (October 28, 2011)

\(^{11}\) The Dairy Association of Gävle (i.e., a city north of Stockholm, on the east coast).
4.2 Type-I versus Type-II farmers

Looking at the individuals leaving a large cooperative in order to start a bee hiving cooperative, first, it has to be stressed that the size of the two small-scale cooperatives in our study is quite different: *Sju Gårdar* consists of seven dairy farmers, whereof six are delivering milk, and the *Upplandsbonden* has c 70 farmers as members. Naturally, this implies that the costs for collaborating are greater in the latter cooperative, compared to the former. Also, it is stressed by the interviewees that it is crucial for success that members take their part of the responsibility and contribute to the cooperative – not only by sending their milk and meat to it. It is clear that both Elisabeth and Inger have an enormous responsibility in their cooperative – they do a lot of work-hours and are well-informed about details. In the case of *Sju Gårdar*, all members can sit on the board, which helps stopping free-ridding behavior, in Inger’s cooperative, 7 members sit on the board as well, but the size of the body of members leads to that they have some problems with free-riding.

As mentioned above, Elisabeth described the members of her cooperative as being tired of the old cooperative and willing and capable to start a new one. Traits she mentioned were “risk tolerant”, and “willingness to work together – no ‘lonely wolves’”. She also believed it to be a strength having differences in age and educational backgrounds, and believed that the farmers in *Sju Gårdar* are entrepreneurs to a higher degree than the average Arla-member. Inger expressed the same farmer-traits, in combination with a feeling in the large cooperative of disappointment, due to the failed merger of Swedish Meats in the end of the 1990’s. Farmers were dissatisfied with the general development of the slaughter sector. This supports our Hypothesis 2. In addition, both interviewees have extensive board-experience, which further points at the hypotheses holds.

4.3 Outsourcing

As mentioned above, both small-scale cooperatives have outsourced the processing of their products, since they do not have the sufficient economic muscles for investing in processing plants of their own. Investing into a dairy or a slaughter house imply investments in the 8-digit range, at least, and hence this is not possible. In addition, in both cases, there are enough excess capacity in the region of Uppland, so finding external processing capacity was not that difficult, albeit somewhat “shaky” in the case of *Upplandsbonden*. Both interviewees said that it would not be possible to start their beehive cooperative, should the possibility to outsource not be present. Here, it is important to outsource, both when it comes to processing the products, but also getting a chance to take part in the distribution channels as well as – to some extent – the contacts with the retailers. Put short, outsourcing leads to fairly low transaction costs. Hence, Hypotheses 3 and 4 both hold.

4.4 Why a Cooperative?

In the case of *Sju Gårdar*, Elisabeth stressed that she believed that a critical factor in closing a deal with the cooperative dairy that processes their milk was that *Sju Gårdar* also is a cooperative: “Had we not been a cooperative, Gefleortens mejeriförening would not have been interested in helping us.” Elisabeth also mentions that working in a cooperative is “a tradition” among farmers, and that the traditional cooperative organizational form leads to that all members are treated equally – something that is important to the involved farmers. They all agree on that it is worthwhile to accept the time consuming decision process of a cooperative.

In the other case, there was no cooperative slaughterhouse in the region with excess capacity to negotiate with, and therefore the reason for *Upplandsbonden* also being a cooperative is not to be found in such a requirement. Instead, Inger said that the main reason for *Upplandsbonden* being a cooperative is that the members “feels at home” in this organizational form, a phenomenon also mentioned by Elisabeth. Since both chairwomen have experience in sitting on cooperative boards – being Type-I farmers – and being the prime movers in founding the small-scale cooperative, the choice of organizational form was not difficult, they both say. Hence, we found support for Hypothesis 6. They also said that it is essential for them to safeguard that all future benefits created by the cooperative are distributed to the members and not to external investors. The main reason for this being

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12 *Inger even sat on the board of Arla during the time she was an active dairy farmer.*
that they want to get a payoff from exposing themselves to the risks associated with exiting the large cooperative and starting the beehive cooperative. This is an indication of Hypothesis 5 being supported by the two cases studied here.

5 Summary and Conclusions

Our two cases show that discontent with the large, old farmer cooperatives under certain circumstances may lead to that a smaller group of farmers exit and form a small-scale cooperative. In order to succeed, it is important that the “dissidents” plan their endeavour in great detail, focusing both on internal organization and on how to make sure that their product will reach the consumer. Creating and safeguarding a well-functioning marketing-channel is essential, creating a collaboration-system between the exiting farmers also is. In our two cases, the farmers have chosen the cooperative organizational form and in one of the cases the marketing takes place through another cooperative, while in the other non-cooperative actors are involved.

We believe that the farmers who dare to take the step to exit the established farmer cooperatives share the characteristic of being what we call “Type-I”-farmers, i.e., farmers used to serving on cooperative boards and being entrepreneurs and risk-takers to a greater extent than the more on-farm efficient Type-II farmers.

Our interviews also indicated that “luck and timing” are important factors in leaving an established cooperative to create a new one, oftentimes competing with the cooperative exited from. It is essential that the ones exiting really are willing to make sacrifices in order to safeguard success for the beehive cooperative. In the case of Sju Gårdar, Elisabeth even stressed (in her lecture at SLU) that it had been a conscious strategy not to talk in negative terms about Arla. She believed that this had contributed to the positive development of the Sju Gårder.
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Personal Communications
Elisabeth Gauffin, dairy farmer and chairman of the Sju Gårdar, January 31, 2011.
Inger Gauffin Carlsson, meat producer and chairman of the Upplandsbondens, October 5, 2011.
Figure 1
Figure 2
Figure 3
Figure 4