

EXPANDED ABSTRACT

CLUN: A business-case of concentration by merger of three dairy cooperatives at Galicians agrarian cooperatives

Objectives

Despite being a strategic sector of Galician's economy, the dairy sector has been traditionally characterized by its small-scale. This factor can inhibit the competitive potential of the companies operating in this area, mainly cooperatives. This paper provides an overview of the steps taken towards the consolidation of a second-degree cooperative known as CLUN –Cooperativas Lácteas Unidas. This process, taken together with a new merger (Aira, SCG) redefines the agrarian cooperative sector as well as the Galician dairy one.

We start by providing a brief analysis of the dairy sector in Spain and Galicia to depict the general context in which this study is undertaken. Then, we outline the setting up of CLUN as a concentration process on the Galician agrarian sector. We analyze both the former companies which jointly manage the second-degree one, and the different stages carried out. Next, we identify the major remaining changes to be resolved on the medium term and the main conclusions of the process. Finally, we set up several recommendations regarding the success of this process and other similar consolidations.

Taken this into account, our main objective is to further the study in the role of the size and the concentration processes on the competitiveness of cooperatives, shedding light on the main factors that can might improve -or inhibit- these processes. In sum, we aim to analyze the threats and opportunities that mergers generate when are implemented, and to provide information about some factors that can improve the opportunities towards a successful concentration.

Method

In order to accomplish our goals, we used a mixed method. First, a review of the main indicators of the agrarian cooperatives -both in Spain and Galicia- has been conducted. This enables us to contextualize our study. Second, we conducted a broad review on the academic literature related to this field, focusing on both those papers that highlight the importance of the size of cooperatives on competitiveness and those that carried out research on concentration processes. Finally, we introduce some issues that suggest the convenience of using a qualitative approach. More specifically, we aim to obtain some information about the business-case as perceived by its internal stakeholders. In this

respect, some managers were interviewed to identify the main factors they found interesting related to the topic.

Results

Since the first consolidated income statement has not been approved to date, it is early to determine the financial success of the integration process. However, it is possible to identify some of the factors that have been traditionally related to the competitiveness of agro-food companies: size, diversification and market orientation. Therefore, it might be suggested that the CLUN's creation represents a daring commitment to improve the competitiveness on the dairy sector.

In addition, we can highlight several practices that seem to favor the implementation. Some of them are related to the idiosyncrasy of the organizations, while others arose as a result of the procedures implemented along the integration. In the first place, although the three former companies were linked on their corporate object, the different specialization's focuses make them complementary. Thus, Feiraco plays a leading role in marketing and distribution; Os Irmandiños in the manufacture of feed and Melisanto has an important portfolio of services for its members. This complementarity helped, for example, to avoid the transfer of personnel and to facilitate the establishment of the decision centers at headquarters.

Secondly, we would like to highlight the background on organizational knowledge that the three cooperatives had among themselves, since they had previously shared business in recent years. This mutual knowledge leads to improve the opportunities to undertake merger' processes in a natural way and to overcome in turn possible frictions.

This circumstance, taken together with the coincidence on the company kind and also with the observance of the principles of the Corporate Governance within cooperatives, seems to suggest that they have similar business cultures. This factor is crucial for the success of any concentration process, since that in addition to the financial and organizational adjustment social alignment is essential. Therefore, the combination of a similar business culture and a coordinated management team can help in the successful accomplishment of the integration. However, we claim the need to advance in the equalization of rights, obligations and benefits among workers, in order to reduce some risks in the integration.

Finally, it should be noted that there was a common choice of the external and independent stakeholder for the realization of the valuation proposal and subsequent determination of the percentage of participation of each organization in the resulting entity. In this way, a process that could be a source of conflict is carried out in a widely accepted way.

In future research it would be interesting to analyze whether these factors could be hierarchized, and also if there are significant differences between the different stakeholders that have participated in the concentration. Namely, if managers of cooperatives have opinions that are statistically different from those provided by workers or external stakeholders. In addition, it could be explored whether types of factors could be established. For instance, social, organizational and financial ones.

Contribution

This work helps to increase the existing evidence about concentration processes in cooperatives. This kind of business have proven to be a successful way to reduce the unemployment. In addition, they have showed to be able to maintain a certain amount anticyclic behavior in order to survive on financial crisis. But to improve their opportunity of succeeding, they still need to implement strategies to favor their competitiveness. Our results show that effort has to be placed mainly in concentration but keeping in mind that It is important for members to learn how to handle problems and potential clashes using the right practices. It should be noted that CLUN operates as a first-degree cooperative since January of 2019. This suggests that these corporate restructuring processes seem to be very active in Galicia, which highlights the convenience of monitoring them. Further initiatives in this respect might raise the level of consciousness towards the importance of societal dimension to sharpen the competitiveness of companies working in this field.

KEYWORDS: Cooperatives, Social Economy, merger, CLUN, Galicia, business concentration, dairy sector.