

Cooperatives going public: motives, ownership, and performance¹

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Abstract

As market conditions in the agrifood industry have changed, cooperatives are seeking structural adjustments to improve organizational efficiency. One of the main reasons for restructuring is the access to outside equity. This paper presents preliminary results of a multi-case study into the reasons and causes of cooperatives becoming listed at the stock exchange. In going public, cooperatives can follow three different models: (1) full conversion into a for-profit corporation, (2) invite outsiders to invest in the cooperative, or (3) invite outsiders to invest in a subsidiary of the cooperative. Model 1 seems to be mostly used in the USA, while model 3 is mainly found in Europe. Model 2 is not popular at all. Besides access to outside capital, another reason for obtaining public listing is making equity liquid for members. Inviting outside investors leads to a conflict of interests between supplier-shareholders and investor-shareholders. Even in cases where (former) members retain majority ownership this conflict appears.

1. Introduction

Over the last decade, several agricultural cooperatives have opted for Initial Public Offering (IPO). These cooperatives have stated several reasons for going public, such as obtaining additional equity capital or making appreciable and liquid equity capital. There have been several publications discussing why and how agricultural cooperatives are going public. However, few publications are based on empirical research.

Cooperative going for IPO can choose three models. First, they may establish subsidiaries (or joint ventures) that seek stock listing. Investors acquire ownership rights in a separate legal entity wholly or partly owned by the cooperative. Second, cooperatives may invite third parties to invest in the cooperative itself. In addition to members, investors become a second group of owners of the cooperative. Third, the most extreme case of having non-member ownership is the conversion (or demutualization) of a cooperative to an IOF. This is basically an exit strategy adopted by cooperatives that choose not to continue operating as a user-owned organization.

In this paper we present a preliminary analysis of 16 cases of food and agribusiness cooperatives worldwide that have gone public during the past two decades. These cases have been collected from trade journals, annual reports, and various electronic databases. The analysis focuses on motives (short term and long term; offensive or defensive reasons,

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industry effects, country effects), ownership issues (transfer of decision rights and of income rights, including the redesign of cooperative pricing policies and member financial instruments); and performance issues (for the cooperative, the stock listed entity and the members of the coop; comparing performance of publicly listed coop entity with average stock market performance).

2. Restructuring of cooperatives

Cooperatives wholly or partially converting into publicly-owned enterprises is part of organizational restructuring of cooperatives. Restructuring is an answer to changing market conditions, requiring the cooperative to invest (more) in R&D, marketing and (international) growth. One of the main elements of this restructuring is the quest of equity capital, particularly supplementing member capital with funds supplied by external investors.

In the recent decade, there have been many theoretical and empirical studies on the restructuring for traditional agricultural cooperatives (Cook, 1995; van Dijk, 1997; Harte, 1997; Nilsson, 1999; van Bekkum, 2001; Hendrikse and Bijman, 2002; Bijman and Hendrikse, 2003; Chaddad and Cook, 2004). Most of these studies have applied organizational economics theory (notably transaction cost, agency, property rights/incomplete contracting approaches) to understand the structural changes taking place among cooperatives. Central in economic organization theory is the concept of transaction costs resulting from incomplete and asymmetric information and the role of organization (including the allocation of property rights) in mitigating transaction costs. Many of the studies applying organizational economics to analysis of cooperative restructuring have focused on the perceived financial constraints of farmer-owned cooperatives. These financial limitations are considered to be related to the allocation of property rights among the various stakeholders of the cooperative. Restructuring generally implies a reallocation of property rights.

A number of these authors have presented a typology of different organizational models that restructuring cooperatives may choose. Nilsson (1999) gives a detailed description of the characteristics of five different cooperative models, where one is the traditional cooperative and four are so-called entrepreneurial cooperatives. These entrepreneurial models are called participation shares cooperatives, cooperatives with subsidiaries, proportional tradable shares cooperatives (or new generation cooperatives), and PLC cooperatives. The main distinction between these five models is ownership rights, which can be collective or individual, and can be held only by members or by members and external investors. Chaddad and Cook (2004) also use an ownership perspective in their typology of cooperative organizational models. Ownership is defined as the combination of residual control rights and residual claim rights. The authors distinguish seven discrete ownership models, ranging from the traditional cooperative as one extreme to the investor-owned firm (IOF) as the other extreme. In between these extremes are five models that in a discriminative way combine the ownership structure of traditional cooperatives (where member/users have full residual control and claim rights) and of IOFs (where investors hold all ownership rights). The six alternative cooperative models have the following labels: traditional cooperative, proportional investment cooperative, member-investor cooperative, new generation cooperative, cooperatives with capital seeking entities, and investor-share cooperative. Chaddad and Cook emphasize that the five non-traditional models can be used by cooperatives to ameliorate perceived financial constraints (while retaining a cooperative organization).

For this paper three out of the seven models presented by Chaddad and Cook (2004) seem to be useful, as they contain the option of public equity holdings: the Investor-Owned Firm (IOF), the investor-share cooperative, and the cooperative with capital-seeking entity. Cooperatives seeking public listing of (a part of) their shares, can follow one of these three different routes or models.

Model 1 is the conversion of the cooperative into an Investor-Owned Firm (IOF), whose share are subsequently publicly traded on a stock exchange. While conversion does not have to lead to public listing, flotation does require the conversion of the cooperative into a for-profit corporation. The IOF-model basically is an exit strategy for the cooperative. Conversion may result in public listing only after a number of years. Particularly if the conversion was followed by investments by venture capital companies, one may expect these companies to cash in on their investment after a number of years. Also the need to acquire additional equity capital in later years may be a reason to go public after all.

We have identified at least five cooperatives that have followed the strategy of conversion with subsequent public listing (see the Appendix for more information on these cases):

- Donegal (IR): conversion and stock listing in 1997
- Calavo (USA), conversion in 2001, stock listing 2002
- National Co-operative Dairies / Clover (SA): conversion in 2003, stock listing in 2004
- Gold Kist (USA), conversion and stock listing in 2004
- Diamond Walnut Growers (USA), conversion and stock listing in 2005
- IAWS (IR): converted in 2005, plans to become stock listed in 2006

In **model 2**, outside investors buy shares in the cooperative, and these shares become publicly traded. New shareholders could be large investors obtaining substantial share packages, but could also be members, management and employees of the cooperative. In the investor-share cooperative model, the cooperative acquires nonmember equity capital without converting to an IOF. The investor-share cooperative issues separate classes of equity shares in addition to the traditional ownership rights held by the member of the cooperative. Investor shares could be preferred stock, nonvoting common stock, and participation certificates (Chaddad and Cook, 2004).

- Pro-Fac (USA), in 1994: only preferred stock
- Saskatchewan Wheat Pool (CA), in 1996, nonvoting common stock
- CHS (USA), in 2001: only preferred stock

In **model 3**, the cooperative has a subsidiary (i.e., a separate legal entity) whose shares become publicly traded. This model has also been named the Coop-Plc model (Harte, 1997; Nilsson, 1999). While the cooperative initially remains majority shareholder, there is an option of turning into minority shareholder or even fully divesting the subsidiary.

- Kerry (IR), in 1986
- Metsäliito / M-real (FI), in 1987
- IAWS (IR), in 1988
- Avonmore (IR), in 1989 (now Glanbia)
- Waterford (IR), in 1989 (now Glanbia)
- Golden Vale (IR), in 1989 (in 2001 acquired by Kerry)
- Atria (FI), in 1991
- LSO Cooperative / HK Ruokatalo (FI), in 1997
- Emmi (CH), in 2004

The model of a cooperative with an capital seeking entity has been referred to as the Irish Model (e.g. by Chaddad and Cook, 2004). This model was designed by the Irish dairy cooperative Kerry and was subsequently followed by dairy cooperatives Avonmore, Waterford, and Golden Vale, and by multipurpose cooperative IAWS (Harte, 1997).

Besides an Irish Model, there also seems to be an Finnish Model. Three agricultural cooperatives from Finland have brought their subsidiaries to the stock market but have retained a controlling stake in these companies. Two of these cooperatives are minority shareholders in terms of number of shares, but still retain the majority of the votes: Metsäliitto has 38% of the shares of M-real, but 60% of the voting rights; LSO Cooperative has 37% of the shares in HK Ruokatalo, but 84% of the voting rights. The three cooperatives that have founded the Atria Group maintain a majority position both in number of shares (58%) and voting rights (92%). Thus, the Finnish model consists of cooperatives getting public listing for their subsidiaries at the Helsinki Stock Exchange, but maintaining the majority voting rights in these companies.

In the next section we will discuss model 1 (conversion into a for-profit corporation) into more detail. This model is the most extreme and therefore most interesting from a restructuring perspective. Moreover, this model can be considered as exemplary for the other models, where the same factors will play a role albeit to a lesser extent. The following section will present a brief overview of the literature on demutualization (or conversion).

3. Demutualization

Demutualization refers to changes in ownership structure of user owned and controlled organizations from a mutual to a for-profit, proprietary organization. Bradley (2001), in his study on the demutualization of financial exchanges, identifies three main reasons for mutual companies to convert to public or private corporations: subjecting the firm to the discipline of the marketplace; facilitating the raising of capital; and allowing diversification into areas that would not be appropriate for a mutual enterprise. Other reasons that have been mentioned in the literature on demutualization are unlocking members' equity values and introducing a new corporate governance structure.

Discipline of the marketplace

Agency theory provides the theoretical underpinning for many empirical studies of demutualization. Agency theory posits that the choice of organizational form is driven by efficiency considerations, since it is expected that in free markets competition will weed out inefficient forms of organization. By converting into a for-profit corporation, a measure for the performance of the company is introduced, thus providing the market for capital and management information on the resources and capabilities of the company. Chaddad and Cook (2004), in a review of the literature on the demutualization of the US savings and loans and insurance industries, conclude that the available empirical literature lends support to the agency theoretical efficiency hypothesis as the performance of converted mutuals improves after demutualization.

Access to capital

Demutualization ameliorates perceived financial constraints. When mutuals convert to public or private for-profit corporations they are able to access additional sources of equity capital,

thereby decreasing dependence on internally generated capital. Whether mutual companies (among them cooperatives) really are financially constrained is still an unresolved issue in the economic literature. Chaddad and Cook (2004) emphasize that it is important to add the 'perceived' qualification because there is little empirical evidence providing a definitive test of the cooperative capital constraint hypothesis. They also point out that the cooperative managers' claim that additional capital is needed to support growth related strategies is not supported by a demonstration showing how growth will benefit the membership.

Diversification

Related to the access to capital hypothesis is the diversification hypothesis. Mutuals have been set up to address the specific needs of their members. Venturing into other types of business is often not considered appropriate by the main stakeholders. Still, the mutual company may have opportunities to grow and diversify into related or unrelated lines of business. Chaddad and Cook (2004) report that the evidence suggests that strategic decisions regarding growth and business lines influence the choice of ownership structure in the US insurance industry.

Unlocking equity values

Conversion provides members access to unallocated equity and reserves. According to Bradley (2001) conversion tends to produce a windfall for members of the mutual organization when their interests obtain market valuation. Chaddad and Cook (2004) argue that a limited horizon among cooperative members has a positive perspective on demutualization, despite the lack of empirical evidence. These authors remark that retained earnings have not all been contributed by present members, but rather accrued over time reflecting profits retained from non-active members, and that one may contest the present members' residual claim rights on reserves. They raise the fundamental question of who are the owners of the unallocated portion of the mutuals equity capital.

New corporate governance structure

Introducing a new corporate governance structure may solve two inefficiency problems related to the structure and process of decision-making. The first problem is caused by the democratic decision-making process. As mutuals have been set up for and by their members, they traditionally have a democratic decision-making structure with each member having one vote. In addition to the formal democratic structure, mutuals have a tradition of making decisions by consensus. Moving from a consensus-based model to an autocratic model, where decisions are taken by the (top)management of the company, is assumed to increase the ease and efficiency of decision-making. The second problem is a typical agency problem between the users/owners of the mutual (as principals) and the management of the company (as agents). When mutuals convert to proprietary companies, they substitute the need to maximize profits to benefit shareholders for the need to consider the interests of the members. Investor-owned firms have the important advantage that their owners generally share a single well-defined objective: to maximize the net present value of the firm's earnings. The costs of collective decision-making are thus relatively low for IOFs (Hansmann, 1996). When member control of the mutual company is ineffective, because member interests are heterogeneous or because members have insufficient knowledge to scrutinize management proposals, managers follow their own 'agenda'. Demutualization offers an opportunity to align managers' and owners' interests by means of stock-based compensation packages.

4. From conversion to IPO?

Demutualization can lead to public listing but does not necessarily have to do so. Public listing is just one of the means to attract additional risk capital. Other sources of equity capital may be former members, informal investors, investment companies, institutional investors, and strategic partners. Different sources have different implications for the price of the shares, the transfer of control, the tradability of the shares, and the repeatability of issuing shares. Public listing seems particularly suitable when the converted company wants to make its shares optimally tradable, for instance when members want to unlock their equity value (Verburg, 1999). In addition, public listing, more than other sources, provides the opportunity to repeat the issue of shares.

Pagano and Röell (1998) present an interesting discussion on how the choice of stock ownership affects the transfer of control. They take the perspective of the company's controlling shareholder (the owner) and study the impact of publicly held versus privately held shares on the discretion that the initial owner retains in running the company. This discretion will depend on how concentrated the stakes of the outside shareholders are. A large shareholder, such as a venture capitalist, will want to monitor his conduct more closely than a large groups of small investors. Thus, some measure of dispersion of shareholdings is desirable. The optimal dispersion of share ownership can be achieved by going public, but this choice entails costs (see below). If the owner sells shares privately instead, he avoids the cost of going public but must tolerate large external shareholders who may monitor him directly. Thus, the owner faces a trade-off between the cost of providing a liquid market and overmonitoring. There is empirical evidence that owners of companies going public underprice the share offering because the resulting oversubscription of new issues allows them to increase the stake held by small investors and to protect the control benefit he has against monitoring by one or more large shareholders (Booth and Chua, 1996; Brennan and Franks, 1997). One of the predictions of the model developed by Pagano and Röell is that companies are more likely to go public if they need a large amount of new funding relative to their value (for instance in the wake of major investment programs). Obtaining these funds from private investors entails a substantial transfer of control to these investors.

There are a number of cooperatives that have converted into a for-profits corporation, without making the next step of going public. Schrader (1989) has analyzed some of these American cases, notably American Rice, Capital Milk Producers Coop, American Cotton Growers, and Rockingham Poultry Marketing Coop. These cooperatives all converted into a for-profit corporation in the 1980s. A more recent example is Dakota Growers Pasta Company, that converted from a (new generation) cooperative to a corporation on 1 July 2002. The main reason mentioned for this conversion was the opportunity to attract additional equity capital. While shares are not publicly listed, they can be bought and sold through two independent stock brokers. The advantages of the conversion became clear in 2004, when Dakota Growers entered into a strategic alliance with other food companies to develop, manufacture and sell low digestible carbohydrate pasta. Capital for this joint venture partly comes from an equity participation of US\$ 5 million by MVC Capital (a NYSE listed investment company). This external capital injection represents 6.8% of Dakota Growers' stock.

5. Going for public listing

There is an extensive body of economic and financial literature on IPO's. One of the main issues in this literature is about the motives for companies to go public. Companies, or particular stakeholders within these companies, see advantages in obtaining stock market flotation. Röell (1996) presents an overview of the reasons for going public given by new stock market entrants themselves. We will now discuss these reasons, and present findings from our cases studies.

First among these reasons is the **access to new finance**, with the concomitant improved prospects for growth (particularly by acquisition). The proceeds of the issue itself are not necessarily devoted to immediate expansion. Rather, the proceeds are used to reduce leverage and increase payouts in the wake of large investment programs (Pagano et al., 1998). In the longer term, going public facilitates the raising of new finance because the equity base is strengthened and leverage is reduced and because prospective investors value liquidity. Also the cost of bank credit goes down after the IPO, due to improved public information associated with stock exchange listing or to the stronger bargaining position vis-à-vis banks determined by the availability of an outside source of funds (Pagano et al, 1998).

Access to additional equity capital seems to be the main reasons for cooperatives going public. Twelve out of the sixteen cases we studied have mentioned that obtaining more equity was the main reason for going public. Several of these cases (notably Gold Kist, CHS, and Pro-Fac) support the findings by Pagano et al. (1998) that the proceeds of the issue are used for primarily used repaying debts. In the case of the converted Irish coops, high interest rates seem to be one of the reasons for obtaining public equity. Among North American cooperatives, the issue of redeeming equity capital to the members plays an important role, particularly when a large portion of the membership is about to retire.

The second reason discussed by Röell (1996) is **enhanced company image and publicity**. Public listing does not only provide an initial certification by financial market professionals but also a longer term price signal to suppliers, employees and customers. A robust equity price in the aftermarket reassures suppliers that they can safely give trade credit, workers that they can expect a fairly stable job, and customers that the product will be supported in the aftermath of their purchase.

We did not find support for the argument that cooperatives enhance their image and publicity by going public. One could even argue for the opposite, as farmer-ownership may be used in marketing as a guarantee for quality and fairness. For the managers of the cooperative firm, however, public listing may enhance their image and therefore their market value.

The third reason is the **motivation of management and employees**. Many companies mentioned the need to retain and motivate senior management and employees via share participation schemes as a reason to go public. Related is the issue of reducing agency costs: stock price valuation can be used to measure (and reward) managerial performance.

Harte (1997) argues that enhancing management incentives was one of the reasons for the Irish cooperatives to go public in the 1980s. He does not, however, give any proof for this argument. In the other cases, we have not found any indications that motivating the management of the cooperative firm was considered an important reason for going public. Trechter et al. (1997), summarizing several case studies of executive compensation in

agricultural cooperatives, found that cooperatives do not use bonus systems to deal with the agency problems, and that there are many approaches for boards of directors to provide incentives and to communicate goals to cooperative managers. In important issue here is the possibility of the converted company to attract professional managers to become members of the board of directors. Generally, a board of directors of a cooperative consists of (mainly) members. By becoming a for-profit corporation, cooperatives cannot only include specialists in their board, they can also attract capable managers from a larger pool (assuming that not all managers want to work for a cooperative organization).

A fourth reason for going public is **cashing in**: existing owners wishing to liquidate all or part of their holdings. However, Pagano et al. (1998) found that most initial owners are reluctant to float more than the bare minimum needed to achieve an adequately liquid market, as they want to retain control. Divestment seems to continue in the years after the IPO.

Members have invested in their cooperative actively (by buying shares) or passively (through retained earnings). These funds are tied in the cooperative firm and cannot be withdrawn on member discretion. In North America, a large part of these funds are redeemed at retirement or after a number of years (to be decided upon by the board). In Europe, most of the member capital inlays become unallocated equity, which is never redeemed. By converting a cooperative into a for-profit firm, and particularly by becoming publicly listed, members obtain access to the capital they (and their predecessors) once put in. This cashing usually develops in two stages: members obtain a part of the proceeds of the IPO directly, and in addition obtain a certain number of shares in the new corporation. It is common that these shares can only be sold after a specific period of time, often a year. In several of the cases studied, making liquid farmers' equity in the cooperative was mentioned as a reason to go public (notably IAWS, CHS, Dairy Farmers Group). Given the large majority of members that vote in favor of conversion, there may be more cases where cashing in was considered important albeit not stated publicly. The Dairy Farmers Annual Report 2004 stated: "The ongoing economic pressure on Members highlights the importance of providing improved benefits through liquidity in their shareholding investment in the business and for such liquidity to be at full market value."

A fifth reason mentioned by Röell is **exploiting mispricing**. Managers can successfully time new issues so as to take advantage of excessively optimistic investor sentiment. This seems to have happened in the ICT-related stock market boom at the end of the 1990s.

We did not find any indication that exploiting an optimistic mood among public investors was a particular reason for cooperatives to go public.

Disadvantages

An IPO may also bring disadvantages to the firm and its stakeholders. Röell (1996) mentions two main categories of disadvantages. First, there are the **costs**: direct costs (e.g. underwriter fees amount to 6 – 10% of the amount raised; Broude, 1997), underpricing, costs of information disclosure, constraints on the freedom of action in making business decisions. Second, there is a danger of **loss of control** by the initial owners. Though control may not be lost at the time of the IPO, as initial owners retain majority shareholding, there is a sliding scale as a result of which, when additional equity capital has to be raised, control may be lost. The effects of going public on the income rights and control rights of the members is discussed in the next session.

6. Effects on income rights and control rights of the (former) members

Cooperative restructuring means a reallocation of ownership rights. When a cooperative converts into for-profit corporation and/or goes for stock market flotation, the residual income rights and residual control rights of the traditional owners, the members of the cooperative, change.

Income rights

Conversion may have several effects on the income rights of the (former) members. These effects are related to the value of the cooperative at the time of conversion, the share-issuing price, the security of having a customer, and the conflict of interest between suppliers of raw material and suppliers of equity capital.

Valuing a firm is central problem in finance. The ultimate value of a corporation is measured primarily by the value of the equity ownership in a market, whether that market is a public market or a private transaction. The value of a cooperative, on the other hand, is determined by the short and long term benefits it provides to its members through the patronage (or transaction) relationship. When a cooperative converts and becomes public, different perceptions of value become relevant, and different persons/institutions become important in determining the value of the cooperative.

Before going public, the value of the cooperative has to be established and translated into the number and issuing price of the shares. However, the valuation by the board together with the underwriter, as translated into the issue price, may not be the same as the value perceived by the public. Thus, the issuing price may be too high or too low. In practice, most IPO's are underpriced. Underpricing results in an increase in the share prices soon after the IPO. As the issuing cooperative could have raised more capital by setting a higher share price, the main effect of underpricing is a transfer of wealth from the cooperative to the new owners.

In at least three of our cases, the share price increased substantially soon after the IPO. In the case of Diamond Walnut Growers the share price rose from US\$ 17 on July 21, the first trading day, to US\$ 20.5 on 4 August 2005. The share price of Gold Kist increased from the issuing price of US\$ 11, in October 2004, to US\$ 19.8 on 4 August 2005 (an increase of more than 70 percent, while the S&P 500 only rose 10 percent). For the Saskatchewan Wheat Pool, share price rose from the initial offering price of \$12 in April 1996 to \$ 24 in late 1997. Calavo shows a somewhat different development: the price remained around US\$ 7 in the first year after issuing, and rose to around US\$ 11 in the fourth quarter of 2003 and has remained at that level ever since.

As members become shareholders, they obtain benefits through dividend and share price appreciation. Dividend and share price depend on the performance of the company, but also on industry factors and general economic trends. The flow of income from dividend and stock price appreciation may be more volatile than the income received through patronage. Hardesty (2005) calculated for the members of the converted cooperative Diamond Walnut Growers that dividend income would not offset the grower's reduced crop revenues (because losing the price premium Diamond members normally receive). This loss of short term income can only be compensated by selling Diamond stock.

A classical issue in the discussion on whether a cooperative should invite outside investors is the question how to allocate the net proceeds of the company among members and shareholders. Shareholders and member-suppliers have intrinsically conflicting interests. While supplying members want a high price for their products, shareholders want the raw material price to be low, thus raising profit and thereby dividend and share price.

In a cooperative that has fully converted into a for-profit corporation, the situation may seem straightforward. The mission of the company has shifted from delivering annual net proceeds to the members to maximizing long-term shareholder value. However, in the short term there still is a large group of shareholders who are also suppliers to the firm. In most of the cases we studied the former members together maintain a majority control (see Table 1). In these converted cases one still finds the conflict between the interests of the investor-shareholders seeking to increase profits by reducing raw material costs can conflict with those of the grower-shareholders trying to maximize their revenues as suppliers.

This conflict of interests may be even more problematic in the other two models, the investor-share cooperative and the cooperative with capital seeking entities. One way of solving part of this problem is not giving outside investors voting rights. However, if investors do not have control rights, they usually demand more (and more secure) income rights. Two of the three cooperatives that have outsiders invest directly in the cooperative, Pro-Fac and CHS, have issued preferred stock. Holders of this type of stock, usually non-voting, are entitled to a guaranteed yearly dividend (for instance 8% of the market value for CHS preferred stock), and the share are cumulative preferential.

The conflict of interests between suppliers and shareholders has also surfaced in the case of Glanbia Plc. This Irish dairy company is stock listed at the Dublin and London stock exchanges. 55 Percent of shares is still held by Glanbia Cooperative Society (and an estimated 14% of shares is held by dairy farmers individually). As milk prices in Europe are gradually declining, due to the restructuring of the Common Agricultural Policy of the EU, dairy farmers see their income decreasing. Suppliers of Glanbia Plc have been rather dissatisfied with the price paid by the company. As Glanbia has embarked on a rather expensive strategy of diversification and internationalization, it tries to keep raw material prices as low as possible. In 2003, Fresh Milk Producers (FMP), a bargaining association representing some 1400 Glanbia milk suppliers in Ireland (representing one third of Glanbia's milk supply), proposed to reconvert Glanbia from a Plc into a cooperative. Their main goal was to have Glanbia give member interests preference over shareholder interests. While the proposal received considerable support among dairy farmers, it was denounced by the board of directors of Glanbia Plc as well as by the board of directors of Glanbia Cooperative Society. As a result, the board of directors of the Society has lost the trust of the membership.

A last issue that should be considered under income effects for (former) members is the impact of conversion on security of having a market. While cooperatives have a statutory right to process and market all products supplied by the members (unless they have agreed on supply agreements, like in New Generation Cooperatives), a for-profit corporation has no such obligation. It can source its raw material from any supplier from any place in the world. Although there may be good reasons for the converted company to continue obtaining raw material from the former members, such as transportation costs or quality guarantees, there is no intrinsic motive for the company to retain its current suppliers in the long run. Most of the converted cooperatives have entered into supply agreements with the former members

individually or through some kind of producer organization. These contracts usually cover all kinds of delivery conditions, but leave the price open to be determined by the market.

An interesting example is avocado cooperative Calavo Growers, which has converted into a publicly listed corporation in 2002. According to Stanford and Hogeland (2004), Calavo had set out on a growth strategy that required the firm to source avocado's among the broader range of producers than just their members. These authors argue that Calavo conversion was the end of a long process of disentangling the firm from the local member-producers. Being a for-profit corporation, Calavo has more freedom in sourcing, including obtaining avocado's from foreign (competing) growers.

Control rights

Full conversion terminates the user-control, user benefit and user-financed relationship between producers and the cooperative. Even though in most converted cooperatives the majority of the share are initially held by the former members, these producers still loose part of control. They usually only get a minority of seats on the new board of directors, as the converted company wants outside experts to join the board. Moreover, the percentage of shares hold by the initial owners decreases as more shares are issued in the future (not only public offerings, also issuances to managers and employees).

Even in the case of investor-share cooperatives and cooperatives with capital seeking entities producers loose part of their control rights. Investor-share cooperatives have chosen to issue non-voting stock, thus retaining full control. However, board of directors in their investment decisions have to take into account the interests of holders of public stock, even if these holders only represent a minority. The presence of outside equity holders whose interests diverge form the interests of member-suppliers will place a duty on the board of directors to take such interests into account, even if this outside equity does not carry voting rights. For instance, when the share price collapse (for whatever reason), the board of directors have to make adjustments to maintain the image of the company as sound investment.

When an individual investor acquires a sizeable share package, he will have influence (formally or informally) on the decisions of the board of directors. This may be a reason why most cooperatives converting into for-profit companies choose public instead of private capital. Public ownership is usually much more dispersed, having many small share holders, who may be less inclined to try to influence company decisions (Pagano and Röell, 1998).

In cooperatives with capital seeking entities, the cooperative eventually may loose control of the publicly listed subsidiary. In the case of Irish dairy cooperative Kerry, the percentage of shares hold by the former members has reduced from 83 in 1986, the year of going public, to 31 in 2005.

It is sometimes argued that as long as the cooperative retains a minimum of 51 percent of the votes, the interests of the producers will prevail. However, as the above discussion on the conflict of interests between supplier-shareholders and investor-shareholders has shown, even when the cooperative remains majority owner, the company has to accommodate the interests of the investor-shareholders. Particularly if the company has an ambitious investment program, and wants to obtain more outside equity in the (near) future, the interests of current investor-shareholders may become dominant over the interests of the supplier-shareholders. An interesting case, again, in Glanbia. The share price of Glanbia has not been very favorable.

It started at EUR 1 in September 1988, rose to EUR 2.6 ten years later, but fell to EUR 0.6 in 2002, to recover to EUR 2.9 in August 2005. Compare this with the price of Kerry stock: from EUR 0.6 in 1986 to EUR 20.6 in 2005. Glanbia is doing its very best to please investor-shareholders, for instance by reducing the milk prices for its suppliers.

7. Observations

In this paper we can only present preliminary findings. No definite conclusions can be drawn on the basis of the cases we have studied. Although we have searched quite extensively in databases, on Internet and in trade journals, there may be more cases to be studied. Within the cases, we have not been able to find comparative information on all issues. Still, on the basis of the information we have and the analyze we were able to make, some interesting observations can be made, that be an input for management and policy discussion as well as for further research.

Observation 1: Access to additional equity capital is main reason for going public

Although there is no definite proof that cooperatives are more financially constrained than other types of firms, almost all cooperatives that went public indicated that access to additional risk capital was their main motive. Given that going public is not a 'natural' thing to do for a cooperative, the boards of directors must be convinced that they have exhausted other means of attracting more equity capital.

Observation 2: Marketing cooperatives are more likely to go public

Almost all coops going public are marketing cooperatives. Value-added activities such as developing and manufacturing consumer products require substantial investments in building and maintaining consumer brands. These investments are not only substantial in size, they are also risky. Public equity seem to be more suitable for such investments. We may also speculate that the consumer focus of these marketing cooperatives has already made the cooperative less producer oriented, making the decision to convert less revolutionary.

Observation 3: Going public is part of the life cycle of a cooperative

Related to observation 2 is the life cycle hypothesis. Some authors argue that going public is a stage in the life cycle of the firm. Maug (2001) presents a theory of IPO's based on the idea that the optimal ownership structure of a company changes over the life cycle of the firm. Insiders take the company public when they have lost the comparative advantage over outsiders in gathering information to evaluate the firm's growth prospects. In other words, when market-specific information is more important than firm-specific information, investors' incremental costs for gathering information about any particular firm are small. The growth perspectives of marketing cooperatives with strong consumer brands may be easy to evaluate by outsider investors, lowering the transaction costs for outsiders to invest in these cooperatives, thus lowering the costs of capital. Cook and Chaddad (2004: 1251) also suggest the idea of cooperative going through a life cycle: "as cooperatives grow and invest in organizational-specific assets – including intangible assets – their ownership structure is realigned."

Observation 4: The model chosen for going public differs across continents

Financial constraints seem to be more serious in North America than in Europe. In North American agricultural cooperatives equity capital generally is allocated to individual members, representing a claim against the cooperative by present and former members. This claim is partially redeemable, with the ultimate payments to members being at the discretion of the board of directors. Because redeeming equity is a cash outlay to the cooperative, a large portion of its equity capital is not considered permanent. In Europe cooperatives the majority of equity capital is unallocated and permanent. Under a system of permanent equity capital, there is no need to replace temporary capital for equity of a more permanent nature, such as publicly-held stock. This may explain why we see more conversions and IPO's by agricultural cooperatives in North America than in Europe.

Observation 5: The model chosen for going public differs across countries

The different models followed by cooperatives from the USA, Ireland, Finland and other countries suggests that national cooperative legislation may still play a major role. Cooperative from countries with strict cooperative legislation may have a stronger incentive to convert and/or go public, whereas cooperative from countries with so-called enabling cooperative legislation, giving cooperatives sufficient freedom to "repair" organizational inefficiencies, may have other opportunities to improve their capital and governance structures while remaining a cooperative. For instance, in the Netherlands, with a very loose cooperative legislation, we do not see much movement in the direction of conversion and/or going public. Similarly in Denmark, where there is no cooperative legislation at all.

Observation 6: There is a Finnish model of cooperatives going public

The Irish model of going public is well known among scholars of cooperative restructuring. In this model a cooperative sets up a subsidiary, transfers all assets and activities to this Plc, obtains all shares of the Plc, and subsequently offers part of these shares to the general public. Less known is the Finnish model. This model is similar to the Irish model as far as establishing a Plc and stock listing of the shares of the Plc is concerned. It differs, however, from the Irish model as the cooperative retains the majority of votes even when it has only a minority of shares. Thus, in Finland cooperatives can induce outside investors to make large investments in cooperatives without obtaining the control rights.

Observation 7: Cooperatives going public underprice their IPO

Once introduced on the stock exchange, the price of the share of converted cooperatives seems to rise rapidly. We may conclude that cooperatives underprice their IPO's. There may be several explanations for this. First, it may be very difficult to ex ante evaluate the value of the cooperative and its future earning capabilities. Second, the current members may have a reason for underpricing as they favor many small shareholders over a limited number of large shareholders. The latter situation would entail more loss of control by the (former) members.

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Appendix: Cases of cooperatives going public

	<i>Name</i>	<i>Date and status of stock listing</i>	<i>Reasons</i>
1	Kerry Ireland Dairy	Kerry Group Plc is stock-listed since October 1986, with currently 69% of shares held by public	Seek additional equity capital to carry out its ambitious growth strategy
2	Glanbia Ireland Dairy	Predecessors (Avonmore and Waterford) were stock-listed since 1989; 45% of Glanbia Plc shares held by public and 55% by Glanbia Coop Society	Seek additional equity capital
3	IAWS (fed. coop) Ireland Farm supplies	Stock-listed subsidiary (IAWS Plc) since November 1988. Complete conversion of IAWS Co-op into IOF in 2005. Will become stock-listed in 2006	1988: Seek additional equity capital for investments and acquisitions; reduce dependence on cash flow and bank borrowings; leverage IAWS' good performance in recent years 2005: members of IAWS Co-op want to make equity liquid
4	Donegal Ireland multipurpose / dairy	Complete conversion into IOF, and stock-listing in December 1997	Seek additional equity capital
5	Metsäliitto Finland wood processing	Partial stock-listing of its daughter M-real since 1987. Metsäliitto cooperative holds 38% of shares with 60% of voting rights in M-real	
6	Atria Finland Meat	Fully stock-listed since 1991; the founding cooperatives hold 58.5% of shares, representing 91.6% of voting rights	Seek additional equity capital
7	LSO Cooperative / HK Ruokatalo Finland Meat	Subsidiary HK Ruokatalo became stock-listed in 1997; Cooperative LSO holds 36.7% of HK Ruokatalo's stock, with 84% of the votes.	Seek additional equity capital
8	Pro-Fac USA Fruits and vegetables processing	Listing of preferred stock in October 1994; majority ownership (56%) by Vestar Capital Partners in its processing daughter Birds Eye Foods since August 2002.	Seek additional equity capital
9	CHS USA grain marketing, grain processing, supply	Has stock listed preferred stock since November 2001. In 2003: preferred stock represents 6% of total equity.	Seek additional capital, in order to repay debts, to grow, and to provide members with opportunity to cash in on assets (change revolving fund assets into preferred stock)

10	Gold Kist USA Poultry processing	Conversion into for-profit corporation and stock listing in October 2004 (NASDAQ): 25% of shares in IPO, 75% to poultry farmers	Seek additional equity capital, to repay debts
11	Calavo Growers USA Avocado	Conversion in 2001 and IPO in 2002 (NASDAQ)	Enabling non-Californian producers to share in the returns from the avocado business
12	Diamond Walnut USA Nuts	Conversion and IPO in July 2005 (NASDAQ); 43% of shares in IPO, 57% allocated to former members	Seek additional equity capital
13	Saskatchewan Wheat Pool Canada Grain marketing; multipurpose	Partial stock listing in April 1996 (non-voting common stock)	Seek additional equity capital, to carry out a strategy of diversification and invest in value added food processing;
14	Emmi Switzerland Dairy	44% of stock listed in December 2004: 58% of shares owned by original owner ZMP (association of dairy farmers)	Seek additional equity capital, for international acquisitions
15	National Co-operative Dairies / Clover South Africa Dairy	Conversion to Plc in Nov. 2003; milk producers hold all ordinary shares; stock-listing of preferred shares in January 2004.	Seek additional equity capital and strengthen market profile
16	Australian Co-operative Foods / Dairy Farmers Group Australia Dairy	In 2004 ACF/DFG is restructured: new coop (DFMC) holds 20% of shares in ACF Ltd, while members individually hold 80% of shares in ACF Ltd. Stock listing of shares planned within 2 – 4 years	Seek additional equity capital; make equity liquid for members to cash