Structure and Culture: The Evolution of Irish Agricultural Cooperation

AISLING MURTAGH AND MICHAEL WARD

Abstract

Dairy cooperative structures in Ireland have evolved through time. Ireland’s twentieth century dairy cooperatives emerged in a market environment that is vastly different from the one in which they operate today. This paper looks firstly at the broad evolution of structural changes in Irish dairy cooperatives. It then examines the question of cooperative culture as a factor shaping the direction of change. The relevance of the “small is beautiful” thesis is briefly considered and we argue that it is too simplistic an approach for evaluation of dairy cooperatives today.

Keywords: multi-purpose cooperatives, dairy industry, participation, governance

Introduction

Schumacher’s (1973) “small is beautiful” thesis deems that cooperatives should operate at a set limiting scale to retain their value and difference. This business approach supports a stronger social ecology rather than abstract power relationships, based on exploitation and alienation, seen in a specialized society (Cotterill, 1983). Ireland’s dairy cooperatives historically had a strong social

1 Aisling Murtagh (corresponding author) is a PhD candidate at the Centre for Cooperative Studies, Department of Food Business and Development at University College Cork (105129028@umail.ucc.ie). Michael Ward is professor in the Department of Food Business and Development at University College Cork and director of the Centre for Cooperative Studies at University College Cork (michael.ward@ucc.ie).
ecology with a high social value (Jenkins, 2001; Briscoe and Ward, 2006). Their current path of development does not work from a “small is beautiful” approach, but not simply “big is better” either. While staying at a certain scale could retain more of the value traditionally envisioned for cooperatives, patterns of development reflect a multiplicity of factors, internal and external to Ireland’s dairy cooperatives. In face of the complex, globalized dairy industry the best approach to serving member needs is not straightforward. This paper will explore the broad structural changes in Ireland’s dairy cooperatives and cooperative culture, assessing how the fundamental issue of representing member needs has been a driver in determining their overall operation.

**Changing contexts**

Cooperatives are dynamic business organizations, they must adapt if they are to survive. Ireland’s cooperatives were originally established to enable the economic survival of small producers, to protect and defend them from the unfair commercial activities of intermediaries and dealers (Tovey, 2001). When Ireland’s cooperatives first established most farms were small, and patterns in dairy farming show a development trend towards fewer, larger farms. The 1991 Census of Agriculture recorded 50,600 dairy farms in Ireland, while the 2000 Census recorded 26,292. While the number of farms decreased, the average herd size increased from 27.1 in 1991 to 37 in 2000 (CSO, 1991, 2000). Today’s cooperatives must serve their farmer members who operate on a range of scales.

The dairy industry, which was once rooted locally, has experienced great change in its scale of operation, moving from local to national, international, and global scales (Jenkins 2001). Changes in the broader food economy are reflected in the broad structural changes in Ireland’s dairy cooperatives, which include mergers, acquisition of subsidiaries, adopting the private limited company (plc) and cooperative plc model. Patterns of change include international operation geared towards global rather than local markets, which also brings a shift in power and restructuring of coops, with the final step involving takeover by investor-owned businesses. Traditional cooperative values are lost as investor-owned businesses are predominantly ruled by market logic (Enright, 1997; Nilsson, 2001). Wider debate around motivations driving structural change shows these

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2 For example in the Irish case, the small west Cork cooperative Newmarket, which has a high proportion of non milk supplying membership, will be bought out by Kerry Group, pending authorization from the Competition Authority (Kerry Group, 2010). The majority membership, who do not supply milk to the cooperative, were seen to be most
themes. The first cooperatives were established to serve the small farmer. In their evolution some question whether change was driven by conventional rather than cooperative economic thinking, to gain access to capital for expansion, and to free shareholders of the need to primarily serve small farmers, allowing for greater financial gain. Commentators have questioned who Ireland’s cooperatives now primarily serve, farmer members or investor shareholders with business practice led by the economics of milk processing rather than concern for the small farmer (Curtin and Varley, 1992; Enright, 1997; Tovey, 1982). These issues are now further illustrated by a description of wider structural changes and evolution of the Irish dairy cooperative form.

**Structural change**

Since the late 19th century, cooperatives have been a significant feature of Ireland’s dairy industry. With the establishment of the Irish Agricultural Organization Society (IAOS) in 1894, cooperatives were actively promoted as an organization structure for the dairy industry (Jenkins, 2004). According to O’Gráda (1977) there were around 800 creameries nationally in 1906, with over a third cooperatively organized. Ireland’s multipurpose dairy cooperatives have been slowly declining in number since the 1930s (Figure 1).

Ireland now has a few very large dairy cooperatives existing in tandem with, by comparison, a greater number of small cooperatives. Of the 28 multipurpose dairy cooperatives operating in Ireland in 2008, large disparities exist in their size, in terms of sales and members. For example, two cooperatives account for 72% of total sales and the 26 others the remaining 28% (Table 1). Membership is less concentrated, however is also skewed, with five cooperatives accounting for 74% of all members and the 23 remaining just 26%. Over a 21 year period, total dairy cooperative member numbers has declined by 15%.

However member statistics may not reflect the scale of this change as inactive members can remain shareholders when they don’t supply milk and non-member suppliers are not represented.

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3 Based on figures taken from ICOS annual reports from 1987 to 2008.
4 For example, the number of member milk suppliers to Newmarket cooperative only accounts for 20% of total members, with 80% not supplying milk (O’Keeffe and Kennedy, 2010).
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Figure 1: Decline in dairy cooperative numbers

![Graph showing decline in dairy cooperative numbers from 1931 to 2008.]

Table 1: Breakdown of sales and members

<table>
<thead>
<tr>
<th>Number of cooperatives</th>
<th>Percent of all cooperatives</th>
<th>Sales, €</th>
<th>Percent of total sales</th>
<th>Members</th>
<th>Percent of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>2^a</td>
<td>7</td>
<td>7,022,931</td>
<td>72</td>
<td>28,363</td>
<td>36</td>
</tr>
<tr>
<td>3^b</td>
<td>11</td>
<td>1,433,698</td>
<td>15</td>
<td>29,691</td>
<td>38</td>
</tr>
<tr>
<td>9^c</td>
<td>32</td>
<td>997,903</td>
<td>10</td>
<td>16,718</td>
<td>21</td>
</tr>
<tr>
<td>14^d</td>
<td>50</td>
<td>238,448</td>
<td>2</td>
<td>4,062</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>9,692,980</td>
<td>100</td>
<td>78,834</td>
<td>100</td>
</tr>
</tbody>
</table>

^a Kerry Group, Glanbia.
^b Dairygold, Lakeland, Connacht Gold.
^c Arrabawn, Monaghan, Tipperary, Donegal, Drinagh, Barryroe, Newmarket, Centenary Thurles, Bandon.
^d Lisavarid, Wexford, North Cork, Lee Strand, Mullinahone, Boherbue, Callan, Newtownandes, Oldcastle, Fealsbridge, Maudabawn, Drombane, Doapey, Corcaghan.

Some cooperatives are more “multipurpose” than others and sales figures include dairy cooperative activities, other business, subsidiaries, and associate companies. General patterns show that Irish cooperative subsidiaries may be owned by the
cooperative in full or in part, be based in Ireland and elsewhere. Subsidiary activity can be linked to their primary commodity supply, milk, such as investing in food ingredients and dairy processing companies. Agricultural companies include the retailing of agricultural inputs, such as animal feeds, and livestock marts. Other diverse ventures include businesses such as supplying home heating oil, petrol, food and hardware retailing, renewable energy, and property sales.

Of the 28 multipurpose dairy cooperatives in Ireland, only 18 process milk. The two largest milk-processing cooperatives, Kerry and Glanbia, process over 3 times the milk of the 12 smallest processors combined (Figure 2). When we compare the milk processed by other cooperatives internationally, even those Irish cooperatives processing the largest volumes are overshadowed. On the global scale, Ireland’s largest cooperatives are small. The biggest processor in the European context, Arla, is processing more than 5 times Ireland’s largest cooperative. In the global system, Dairy Farmers of America is processing 11 times the volume (Figure 3).

Figure 2: Milk processed per cooperative

![Graph showing milk processed per cooperative.]


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5 For example, according to annual reports, in 2008 Dairygold held 10 subsidiary companies; 7 based in Ireland, 2 in the UK and 1 in Germany. Connacht Gold held 16 subsidiary companies in 2008, and one associate company based in Scotland.
Broader changes

Enright (1997) describes four development phases in the Irish dairy industry. During phase one, from 1880 to 1920, a large number of creameries existed and the industry grew rapidly. With economic depression, in the second phase, from 1920 to 1950, growth stagnated. Direct state intervention followed controlling the number of creameries, also aiming to improve production efficiency and milk quality. The third phase saw a resurgence of growth, from 1950 to 1983, influenced by EEC accession and the Common Agricultural Policy. A drive to rationalize cooperatives to achieve economies of scale began. The Irish Cooperative Organization Society (ICOS) introduced a national amalgamation program in 1966 to consolidate small creameries (Tovey, 1982). Some of the smaller cooperatives resisted amalgamation resulting in a decentralized milk supply geography. The beginnings of the last phase, from 1984 to 1996, is marked by the introduction of the milk quota in 1984, which limited growth. Cooperative amalgamations and internationalization of activities through the acquisition of non-national companies by
large creameries was a feature. In addition, the cooperative plc model was introduced, seeing cooperatives trade some of their shares publicly. This marked the beginning of significant internal structural changes for Ireland’s dairy cooperatives, which has continued (Table 2). Since 1997 a trend of gradual decline in the cooperative share of total ownership of cooperative plcs is found (Harte, 1997).

Table 2: Structural changes since the late 1980s – select chronology

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Centenary and Thurles amalgamate to form Centenary Thurles</td>
</tr>
<tr>
<td></td>
<td>IAWS cooperative trades shares publicly to become One51 plc</td>
</tr>
<tr>
<td>2002</td>
<td>Lakelands cooperative buys out Balieboro</td>
</tr>
<tr>
<td>2001</td>
<td>Nenagh and Mid-West Farmers amalgamate to form Arrabawn cooperative</td>
</tr>
<tr>
<td></td>
<td>Kerry Group buys out Golden Vale</td>
</tr>
<tr>
<td>2000</td>
<td>North Connacht and Kiltoghert amalgamate to form Connacht Gold cooperative</td>
</tr>
<tr>
<td>1999</td>
<td>Avonmore Waterford Group rebranded as Glanbia plc</td>
</tr>
<tr>
<td>1997</td>
<td>Avonmore plc and Waterford plc amalgamate to form Avonmore Waterford Group</td>
</tr>
<tr>
<td>1990</td>
<td>Killeshandra and Lough Egish amalgamate to form Lakelands cooperative</td>
</tr>
<tr>
<td></td>
<td>Ballyclough and Mitchelstown amalgamate to form Dairygold cooperative</td>
</tr>
<tr>
<td>1989</td>
<td>Donegal Creameries trades shares publicly to become Donegal Creameries plc</td>
</tr>
<tr>
<td>1988</td>
<td>Avonmore cooperative trades shares publicly to become Avonmore Foods plc</td>
</tr>
<tr>
<td></td>
<td>Waterford cooperative trades shares publicly to become Waterford Foods plc</td>
</tr>
<tr>
<td></td>
<td>Bailieboro cooperative trades shares publicly to become part of Food Industries plc</td>
</tr>
<tr>
<td></td>
<td>Golden Vale trades shares publicly to become Golden Vale plc</td>
</tr>
<tr>
<td></td>
<td>IAWS cooperative takes the hybrid cooperative–plc route</td>
</tr>
<tr>
<td>1986</td>
<td>Kerry cooperative takes the hybrid cooperative–plc route</td>
</tr>
</tbody>
</table>

The current phase looks towards the removal of quotas in 2015. Global dairy markets are volatile and some suggest Ireland’s dairy industry is a dying one (MacConnell, 2009). Government has recommended major rationalization of the dairy sector and a restructuring of Ireland’s decentralized dairy processing geography to meet future challenges (Promar International, 2003). With little progress made since 2003, the 2009 strategy recommended immediate action to ensure the future viability of the sector, proposing a centralized, integrated model

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6 For example, Glanbia cooperative owns 54.6% of Glanbia plc and Kerry cooperative owned 24% of Kerry plc in 2009. In 2006, Kerry cooperative owned 35% of Kerry plc (Ward, 2006).
including milk collection, processing, marketing, research and development. To increase efficiencies a central processing coordinating body is proposed, which will determine how milk is used and where it is processed. Two central supportive arms, marketing and research, are seen as pivotal to creating the most effective change (Eurogroup Consulting Alliance, 2009). However, a pure rationalization approach has also been criticized. An alternative approach, increasing the diversity of business activity and moving away from specialization, could improve performance (Harte and O’Connell, 2005).

**Ireland’s cooperative culture**

Ireland’s dairy processing industry was traditionally dominated by a large number of small cooperatives, but has now evolved greatly. A picture of structural changes is further illuminated by an exploration of the question of the evolution of cooperative culture in Ireland. Tovey (2001) states that cooperative organizations still exist in Ireland today but a cooperative “movement” most likely no longer does. In the European context, Nilsson (2001) describes a number of new cooperative models, such as the cooperative with subsidiary companies and the cooperative plc, questioning if the new organizational types still adhere to the concept of a cooperative and arguing that certain central criteria must be retained to adhere to the original cooperative ideology. Most vital is that members should receive the best possible benefits from the cooperative’s activities. Ownership of external companies should only be pursued if this increases benefits to members. The cooperative must also remain in primary control. Under this categorization, the largest Irish cooperatives could be understood as departing from the cooperative model.

It is also argued that Irish farmers did not take ownership of their cooperative and identify strongly with the cooperative ideology from the start (Breathnach, 2000; Curtin and Varley, 1992; Jenkins, 2004). Breathnach (2000) argues that this greatly affected how Ireland’s dairy cooperative sector has restructured, since farmer participation in cooperatives was often confined to the supply of milk, leaving the running of the cooperative to management. Others argue that restructuring affected the amount of influence farmers felt they could have. Along with amalgamations in the early 1970s, a process of “professionalization” of cooperatives occurred. Farmers felt they had little influence and manager’s decision-making was often based on what was good for the cooperative as a business, rather than for the farmers (Tovey, 1982). Wider social issues also had influence. The IAOS’s original ideology sought to restructure the social and economic order to create “self-help” local communities or the “cooperative parish”
The presence of local micro-politics and private interests affected the spread of the vision regionally. Jenkins (2004:94) describes early-1900 power relations in Munster as revolving around the “middle-class nexus of large farmer-shopkeeper-priest”. The presence of conventional creameries competed with cooperatives in introducing cooperative principles to the Irish farmer. Milk could be also be supplied to cooperatives without membership and Jenkins (2004) deems this the introduction of the classic “free rider” problem, where some benefit from the actions of others, without having to make a commitment to the cooperative or have prior identification with the cooperative ideology. In Ulster, where small farm communities were not dominated by private interests, dairy cooperatives developed with more success.

Moving to more recent times, issues persist. Jacobson and O’Leary’s (1990) study of cooperatives in the late 1980s highlights the common practice of cooperatives holding profits as unallocated reserves and not assigning them to members as share capital. The practice of milk suppliers not being cooperative members was also common. Curtin and Varley (1992) question if this really represents ownership of the cooperative and suggest this affected how farmers valued their cooperative shares. If farmer interaction with cooperatives is confined to supplying milk, the cooperative’s culture is built on the milk price relationship, rather than a stronger social and economic farmer–cooperative relationship.

However, while categorizing cooperatives in terms of how well they serve members is complex, milk price can provide some indication of how cooperatives serve farmer members (Harte and O’Connell, 2007). In terms of milk price, patterns of return to farmers over the last six years show that new cooperative models and their strategies are not benefiting the farmer by returning higher milk price. From 2005 to 2010, of the 25 cooperatives paying the top five milk prices, four county Cork cooperatives, the Carbery group, accounting for 72% of the total, are among the smallest cooperatives in terms of sales. The rest of the cooperatives who paid the best milk prices are also classified as small cooperatives in terms of total sales. The largest cooperatives only feature twice, once in first and once in second place. This would suggest that small cooperatives are more likely to return profits to their members, subsidizing milk prices when downward pressure is applied. An alternate view on servicing members could also read that a cushioned milk price may serve members in the short term, but in the long term

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7 Four west Cork cooperatives, Drinagh, Bandon, Lisavarid, and Barryroe, came to together to acquire the subsidiary Carbery Creameries, holding 39%, 22.6%, 20%, and 18.4% of ownership respectively (Briscoe and Ward, 2006).
8 Calculated from the Irish Farmers Journal Milk Price League Tables from 2005 to 2010. Figures taken from January of that year, except for 2006 when January figures were unavailable.
creates a vulnerable sector, disconnected from volatile market realities, making artificial support of milk price unsustainable. This leaves cooperatives unable to claw back what they paid out if the global dairy market continues to worsen and retained profits are no longer available to redistribute. ICOS (2009) questions the practice of supporting milk price: “milk prices paid to farmers must reflect real market returns and the cooperatives are not in a position to support milk prices to the extent they did in 2008”.

Rather than working on a small scale in global terms, cooperation between cooperatives in Ireland is another option to strengthen the sector. Historically Ireland’s cooperative culture has resisted this kind of change, albeit unevenly. In 2009, one option presented by ICOS, Milk Ireland, proposed consolidating processing, while allowing cooperatives to retain their independence. The Milk Ireland proposal offers a template for the future structure of Ireland’s milk supply, with all supplies pooled and contracted out for manufacture and the cooperatives paid a commercial price for milk. It aims to remove competition between milk processors internally. Cooperatives retain their independence and can subsidize the commercial milk price paid to them by the central body, leaving concern for the farmer member back in the cooperatives hands. Mixed reports exist as to how the concept is accepted. Support is reputed to exist among farmers, but change initially relies on decisions made by individual cooperative boards (Mullin, 2009). Resistance could reflect differences in cooperative identity, with some valuing complete independence, while others viewing working together in the context of global markets the necessary approach.

### Reasserting agricultural cooperation

On the national level, economic recession has left Ireland fundamentally reevaluating its economic development path. This may be the time for a revival of the cooperative consciousness and a re-engagement from the bottom up with the cooperative ethos in the farming community. While patterns have displayed a move towards the cooperative subsidiary model, one cooperative, Glanbia, attempted to make a move back towards the cooperative model in 2010. It was proposed to buy back the plc assets by the cooperative, a change that needed the support of 75% of shareholders. The proposal attracted 73% support, just under the required level. However, more symbolically, it does represent significant support

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9 For example, Town of Monaghan had a strong performance in 2008, but less so in 2009. Its Chief Executive suggests they had given producers back profits from the previous year and falling dairy product prices left its turnover down by 20% (Campbell, 2009).
and an attempt by farmers to regain control. Considerable debate existed around whether the cooperative model could deliver better milk price. Concern existed around the capacity of farmers to manage the cooperative in a professional manner and it was feared that if better price were delivered, this would be at the expense of developing the research and development aspects of the business (Harte, 2010). Also, considering the plc had grown out of the cooperative, the price of the buy-back and the level of debt transferred to the cooperative created additional issues.

For the revival, reinvention, and preservation of over a century of agricultural dairy cooperation in Ireland, innovative thinking is needed. In relation to Ireland’s organic food and agriculture movement, Tovey (1999:57) suggests, “those who want a real alternative may have to withdraw, regroup and start all over again”. The cooperative sector is again at a crossroads, particularly for the remaining small cooperatives that occupy an uncomfortable position within the globalized food supply system. The question for these businesses is do they fit within its structures and ethos? Problems with conventional global food supply chains include unsustainable long and complex supply chains, limited connections between producers and consumers, and concentration of control with a small number of corporations and food retailers. This system does not fit with the farmer-controlled business model, which exists to serve farmer interests and extends the farm business beyond the farm gate. Cooperative’s original aims were to give farmers more control by operating effective democratic governance. Alternative marketing mechanisms, such as farmers’ markets and community supported agriculture, have a similar ideology, including prioritizing “the local over the global, fresh over processed foods, diversity over homogeneity, skills rather than deskilling, rights rather than acceptance” (Lang, 1999:169-70). The present challenge for small dairy cooperatives is to retain farmer control, while also adjusting Ireland’s dairy cooperative processing sector so it can compete in the globalized food system. Magan and Murphy (2009) argue that farmers must drive change and that dairy processing must be consolidated to ensure a future for the industry, reflecting best practice globally. However, in the context of the 1970s Irish dairy farming, Tovey (1982:77) argued that the traditional family farm is part of modern industrial agriculture, but part of the system based “on terms of severe exploitation” because they lack “organization and power”. Based on this assertion, traditional farms can compete in the global system, if done on the correct terms. A small, new wave of cooperation of sorts is emerging in Irish agriculture seeing the emergence of alternatives like farmers’ markets and community supported agriculture. However, this is independent of existing cooperatives and the question for them might be do they look solely to the global market, or do they withdraw, even slightly and rethink their strategy on a fundamental level and begin operating shorter supply chains. Alternative marketing mechanisms such as farmers’ markets, farm shops
and community supported agriculture could be one strategy; however in the context of specialized farming, such as dairying, this is problematic without significant changes in farm types.

Conclusion

The traditional cooperative model has evolved and changed through time, coinciding with economic and social changes in agriculture. Structural changes raise the question if existing cooperatives are new manifestations of an adapted cooperative ideology for the global food system or simply if cooperatives are pale imitations of the traditional cooperative model. The current structure of Ireland’s multipurpose dairy cooperatives represents the cumulative effects of paths and decisions taken, incrementally gaining an increased scale of operation, all embedded in the context of a global food supply system. Others would argue that the weakness of the cooperative ideology at the grassroots level was a significant factor that allowed such changes to occur. The “small is beautiful” thesis aims to preserve the social value of cooperatives but when the survival of dairy farming is under question, and this value has been eroded already, suggesting that small is necessary for a strong cooperative culture may be a luxury. However, the cooperative consciousness is not dead in Irish farming. More research into the nature and extent of the desire to reassert control in Irish farming of systems beyond the farm gate could provide some gauge regarding the revival of the cooperative consciousness at a time of economic crisis in Ireland.

References


