Succession and continuity of family business in the agri-food chain: Family farms and the cooperative behaviour.

Working paper

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Abstract

The aim of this working paper is to introduce the relationship between family farms and cooperative behaviour in front of the challenges that represent ageing, succession planning and bargaining power in the agro-food chain.

The figures gleaned from Eurostat show that there is around of 12 million farms in the EU-28. 96% are worked either solely by family members or they do most of the work. Agri-food chain represents a number of actors than varies greatly at each level. According to date provided by the European Commission dimensions are very different depending on the stage: Around 12 million farms produce agricultural products that are processed by 300,000 enterprises in the food and drink industry. These food processors sell their products through the 2,8 million enterprises within the food distribution and food service industry, which deliver food to the EU’s 500 million consumers.

It is very appropriated to get the question presented by Goel “Why couldn’t family farms adopt a cooperative way of thinking? To name the co-operative principles is one stage to study in depth the applicability in family farm strategies.

Key words: Family farms, agro-food chain, cooperatives principles, succession and aging
**Introduction.**

Succession and continuity of family farms represent a social and economic challenge to face not only for farmers but society. The farms and farming businesses sector is basically supported on family businesses and on intergenerational succession (Mishra and El-Osta, 2007). The primary sector is represented by farms, most of which are family concerns (Glover and Reay, 2015) and they face various challenges, such as the continuity of the business and the inclusion of the young members of the family. The figures gleaned from Eurostat show that there is around of 12 million farms in the EU-28. 96% are worked either solely by family members or they do most of the work.

Family farms represent one of the essential elements that characterises family businesses as a whole, the intense relationship with their more immediate socio-employment and economic environment (Plana, 2016). Data published by the Spanish Economic and Social Council (CES) in Cauces (2016) talk of a reduction in farming income in constant terms of around 30% between 2003 and 2015 in Spain. These data are in line with those published by Glover and Reay with regard to the fall in income or even losses of these businesses (Department of Environment, Food & Rural Affairs, 2012) in the United Kingdom.

Professor Jussila as one of the Program Chairs of the 2014 Annual Conference of the IFERA expressed that exist many factors that are combinable and comparable between family business research and cooperative studies. Continuing with Professor Jussila, “a family or a family community is sometimes just a short distance away from a community engaged in a particular industry and consisting of individuals and families” stated.

Agri-food chain represents a number of actors than varies greatly at each level. According to date provided by the European Commission dimensions are very different depending on the stage: Around 12 million farms produce agricultural products that are processed by 300,000 enterprises in the food and drink industry. These food processors sell their products through the 2,8 million enterprises within the food distribution and food service industry, which deliver food to the EU’s 500 million consumers.
Agri-food Chain: Key facts and figures

Agro-food chain represents a *funnel* where the wider part is represented by holding farms (family farms in majority), narrowing in the second stage that represents food processing industry, and food retail and food services represents the part which, generally is in contact with the final consumer. In this last stage should be explained that very few food retail enterprises could get a 47% of market share in some cases.

As point out the European Commission, everyone is part in the food chain, as a producer of agricultural raw material, as food processor (food and beverage processing industry), as food service or food retail or seller of food products or, mainly as consumer.

All this process from the farm to the final consumer adds value to the final products. Most food products that arrive in groceries or stores has been processed to fit the final product. All this process adds value to the final product.

Food chain links the many actors involved from when raw materials are produced to when they are consumed, providing a variety of food to EU’s 500 million consumers.

If the food chain is to function properly, then it needs to contribute to the economy in a sustainable way which also means that its actors need to be economically viable.

For the EU economy, food production actors (agricultural producers and the food processing industry) jointly account for 7.5% of employment and 3.7% of EU’s total value added. Nevertheless, the contribution of every link in the food chain to the economy and the pressures each has to face are different.

With the biggest number of holdings and a large share of persons employed, agricultural production is more exposed than its counterparts within the chain to uncertainties linked to weather, production costs or price volatility.
All these figures exhibit the number of enterprises/Holdings, such as persons employed in each stage of agro-food chain and value added at final product. The bigger number of enterprises/holdings (in Agriculture) the less value added. It is important to focus the attention in the weak link of this chain represented by Agricultural Enterprises/Holdings most of which are family farms.
The strong economic growth is not reflected in its agricultural sector: Real farm incomes have declined; the disparity between agricultural and industrial wages is widening; and the incidence of part-time farming with greater reliance on income from outside the sector has increased. These are the factors that would have contributed to a decline in both succession rates on farms and the enrolment of students in agricultural colleges “An investigation into factors affecting the occupational choices of Nominated farms heirs in Ireland” (Hennessy and Rehman, 2006).

As it could be seen, “the funnel effect” is very present in the agri-food chain. Holdings/enterprises and persons employed in agriculture represent 80% of the total amount and the value added is not much more than 20%.

According to Eurostat the number of farm holdings in Spain is 965.000. Most of them with only family workers 93,65% or the majority of family workers involved in regular labour force, 2,5 %. These figures point out that family farms represent the extent model in agriculture business. If it is observed by age of holder we could affirm that aging it is a social challenge that should be faced be policy maker but not only.

### Structure of agricultural holdings in Spain by age of holder

<table>
<thead>
<tr>
<th>Age of Holder</th>
<th>2005 Total</th>
<th>2005%</th>
<th>2013 Total</th>
<th>2013 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 35 years</td>
<td>64,990</td>
<td>6,0%</td>
<td>35,700</td>
<td>3,7%</td>
</tr>
<tr>
<td>35-44 years</td>
<td>179,270</td>
<td>16,6%</td>
<td>122,920</td>
<td>12,7%</td>
</tr>
<tr>
<td>45-54 years</td>
<td>240,560</td>
<td>22,3%</td>
<td>241,610</td>
<td>25,0%</td>
</tr>
<tr>
<td>55-64 years</td>
<td>234,170</td>
<td>24,5%</td>
<td>243,010</td>
<td>25,2%</td>
</tr>
<tr>
<td>&gt;64 years</td>
<td>330,430</td>
<td>30,6%</td>
<td>321,770</td>
<td>33,3%</td>
</tr>
<tr>
<td>Total</td>
<td>1,079,420</td>
<td>100%</td>
<td>965,000</td>
<td>100%</td>
</tr>
</tbody>
</table>


Ageing and lack of succession represent a reality that is needed to continue focusing on. Less young farmers, less holdings and increasing number of holdings managed by farmers from 55 years to 64 and beyond. This situation is similar at the average number of the European Union.
Data provided by the Ministerio de Agricultura about the agro-food chain in Spain explains the different numbers between parts that composed it. The producers of raw material are 965,000, agro-food industry has 28,343 and 3,838 cooperatives (FIAB, 2013), and three retail group (Mercadona, Carrefour and Eroski Group) share the 47% of the sell market in retail (Nielsen, 2013).

**Theoretical background**

Family farms illustrate a great capacity of resiliency, though represent the weak link in agro-food chain as we could have seen. This situation inside the agro-food chain of family farms could provide an important source to investigate specific characteristics related to this kind of family business. This weak position in the agro-food chain of family farms and its survival, represent an interesting source not only for family firms researchers but for co-operatives researchers too.

Monllor (2012) talks of the business survival challenges facing the generations of young family members who join family farms and farming businesses. Kaplan (2009) highlights the existence of communication barriers between the different generations living together on family farms as another impediment to continuity. Mishra et al. (2007) reinforces the very present concept of intergenerational succession on family farms. Lobelly et al. (2002) maintain that many family farms have survived beyond the third generation and nearly a third of them have operated in the same area of production for over a century with joint and multi-generational dedication, which indicates the longevity of this type of family business. Family farms represent one of the essential elements that characterizes family businesses as a whole, the intense relationship with their more immediate socio-employment and economic environment (Plana, 2016). All of this literature allows us to state that family farms have characteristics that are common to family businesses and that they also possess specific characteristics, such as the profound intensity with the environment in which they are located and their continuity generation after generation.

Various institutions representing family business associations, as well as young agricultural entrepreneurs and farm-owners, note the specific nature that characterises
both family farms and family members who work on them. Succession and continuity represent a key challenge to this type of economic activity and the values that characterise them. The European Commission agrees on this last aspect and looks more deeply at the values and traditions associated with this type of family business. The inclusion of young people on family farms is a key element for their survival and continuity.

In the document entitled “Succession in EU farming: Challenges and Opportunities”, the CEJA stated the need to provide a response at the level of the European institutions in the face of the succession challenge facing family farms and farming businesses. Succession and continuity represent a key challenge to this type of economic activity and the values that characterise them. The European Commission agrees on this last aspect and looks more deeply at the values and traditions associated with this type of family business. The European Council of Young Farmers (CEJA), the European Landowners Organization (ELO) and the European Family Business (EFB) state similarly with regard to family farms and farming businesses. In November 2013, the ELO and the EFB drafted a joint document to submit to the European Commission, which says the following: “Family farmers and landowners are rural businessmen and business-owners. They are entrepreneurs with an intergenerational perspective, who play an important economic as well as social role at local and regional levels.”

According to the European Commission, family farms represent a diversity of elements that require the utmost attention. From the sociological perspective, family farms are associated with family values such as solidarity, continuity and commitment; in terms of business management, they are identified with characteristics that are inherent to entrepreneurship, property management, resilience and personal objectives.

The European Commission goes on to say that family farms are more than a professional occupation as they reflect a lifestyle based on beliefs and traditions about how to live and work. (E.C. “Family Farming: A dialogue towards more sustainable and resilient farming in Europe and the world”).

For the European Commission, family farms and farming businesses are at the “heart” of the European model of agricultural and land sustainability.
Farms on which only family members work (93.65%) or where it is the family members that do most of the activities (2.50%) represent over 96% of the farms in the EU-28. These figures indicate the extraordinary presence of this type of business, as has been stated previously, and the importance that they represent at the level of regional and socio-economic balance.

Another of the elements that characterise family farms is the low economic yield and the low levels of income that are obtained from family farming businesses. It is interesting to continue in the vein started by Glover & Reay in their publications “Sustaining the Family Business with minimal financial rewards: How do family farms continue?” In this work, they mention two issues related to family farms that help lay the basis of this work in progress: “little attention to survival among small family businesses where financial returns are persistently poor” on the one hand and “the surprise that firms such as family farms can be successfully transferred from generation to generation, and yet economic profits can consistently be low or even negative”.

The data published by the Spanish Economic and Social Council (CES) in Cauces (2016) talk of a reduction in farming income in constant terms of around 30% between 2003 and 2015 in Spain. These data are in line with those published by Glover and Reay with regard to the fall in income or even losses of these businesses (Department of Environment, Food & Rural Affairs, 2012) in the United Kingdom.

The average age and the ageing of this sector also represent a specific characteristic of this economic activity. Some 65% of those employed are aged between 55 and 75, and the average age of farm and farming business owners is 53, making it one of the sectors with the highest rate of ageing in the European job market. Only 7% of people working on farms are below the age of 35 (Eurostat, Farm Structure survey).

**Family farming and the cooperative behavior**

The family farming concept covers different elements. It is not only a question related to agricultural aspect, from a sociological perspective family farming is associated with family values, such as solidarity, continuity and commitment. Family farming is often more than a professional occupation because it reflects a lifestyle based on beliefs and traditions about living and work according to European Comission. This description is deeply linked to co-operative values expressed by ICA, named, self-help, self-responsibility, democracy, equality, equity and
solidarity. As Goel (2015) expressed, these values and principles that shape the co-operativism origin and behavior represent a very good chance to focus on not only in co-operatives as well in Family Business, especially in Family Farms.

Family Farms represent the most common operational farming model in Europe, thus Family farming is at the heart of the European model of agriculture. Not only assuring food providing, ensuring food safety, at the same time, it maintains the rural lifestyle and contributes to the socio-economic and environmental sustainability of rural areas.

Allen and Lueck (1998) define the “pure” family farm as an organization of farming activity where “a single farmer owns the output and controls all farm assets, including all labour assets”. In the context of the UN’s Year of Family Farming, the Fao defines family farming as a means of organizing agricultural, forestry, fisheries, pastoral and aquaculture production such that it is managed and operated by a family and is predominantly reliant on family labour.

The ELO and EFB support the definition of family farming, in which the landholders are also active labourers.

Farm succession planning i.e. and transfer of managerial control to the succeeding generation during the life of the owner of the business is well known (Zimmermant & Fetsch, 1994; Kimhi & Lopez, 1999). Yet relatively little is known about why families wait to make farm transfer arrangements. Delayed planning is a complex, and challenging problem as well as communication barriers to Family farm succession planning. Kaplan, Nussbaum, Becker 2009).

As Corsi(2004) explains succession in family farms represent a critical issue not only for the farms, beneath the socio-economical environment where these farms are fixed.

Ageing in family farms is an issue that is very present in policy makers agenda. Ageing is a result of different questions related to the specific characteristics of family farms. Lack of succession could represent the abandonment of farms and degradation of territories.

According to Goel (2015) there are a lot of elements in common between family firms and the cooperative way of thinking. But not only the similarity between thinking, another aspects as long-term perspective, interactivity and the will of obtaining profits over time.

To face the questions what it is a co-operative, Kimberli Zeuli (2005) described co-operatives as groups of individuals throughout time have worked together in order to pursuit common goals. Key elements as work together along time and to pursuit common goals fit perfectly not only in family farms as well family business. Family farms as a raw material providers (mainly) in the agri-food chain represent one of the different aspects of the co-operative model of behavior. Because of asymmetry in the agri-food chain cooperatives’ are seen as model to enforce the
market position in food chain. Saksa, Jussila, & Tuominen (2007) shown their interest on producers and marketing co-operatives as a key point in the agricultural sector.

There are two definitions on cooperatives: According to ICA (International Cooperative Alliance) a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Voluntary and true cooperation relay in mutual help as a value. The other definition is what has been adopted by the U.S Department of agriculture (USDA) in 1987: A cooperative is a user-owned, user-controlled business that distributes benefits on the basis of use. Both definitions shed light in what are generally considered the three hallmarks of cooperatives: User-ownership, user-control, and proportional distribution of benefits.

According to ICA, the Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

**Cooperative Principles** The principles of co-operatives relay on that values, although it is compulsory to render them. Goel, Karhu, Weismeier-Sammer, Hadjielias and Hatak from different research works did it. The global aim was to bring together the perspectives of both family entrepreneurship and co-operation. (Karhu 2014)

<table>
<thead>
<tr>
<th>1. Voluntary and Open Membership</th>
<th>Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.</th>
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<tr>
<td>2. Democratic Member Control</td>
<td>Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
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<tr>
<td>3. Member Economic Participation</td>
<td>Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.</td>
</tr>
<tr>
<td>4. Autonomy and Independence</td>
<td>Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.</td>
</tr>
<tr>
<td>5. Education, Training and Information</td>
<td>Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.</td>
</tr>
<tr>
<td>6. Co-operation among Co-operatives</td>
<td>Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.</td>
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</table>
### 7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

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According to Hadjielias & Poutziouris (2015) there is ample evidence on influences, processes and practices within the family business (e.g. Discua Cruz et al., 2013; Hadjielias, 2013; Hamilton, 2011) few studies have examined family business’ inter-firm relationships (Pittiono and Visintin, 2011; Roesll, 2005). Cooperative links occupy a critical role in business continuity and other benefits related to cluster synergies with other firms. Pittinos and Visintin,(2011) express that cooperative relationships with other business become critical to family business and continuity. Autonomy and independence, this is one of the own definition is given in the public consultation made by EC about the specific attributes related to family farms. Co-operatives are autonomous, self-help organization controlled by their members.

Principles of co-operatives represent and interesting path to study how manage family farms facing to asymmetry in agro-food chain, ageing and succession as challenges for the continuity of this family business that represent family farms.

**Conclusions**

The co-operative principles nest an interesting path for studying family farms and their cooperative behavior. Voluntary and open membership means to accept the responsibilities of membership too; that is a point that fit perfectly not only for family farms but for all family business memberships. Democratic member control; co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.

Some studies have shed light on cooperation and family farms. It is interesting to influence in cooperation between family business of different size (Hatak 2015) and how could be interesting to fit into different family business that operate in the agro-food chain because of consumers habits changes. It could be interesting to know how many family farms are involved in cooperative and which are the reasons to do it. Co-operatives and family farms represent two examples to working for the sustainable development of their communities through policies approved by their members.
Pritchard et al (2007) argued that in the specific tomato growers in Australia, the appropriate way to describe farmers is through the deployment of a new category of farming: Cooperative and farm family entrepreneurs.

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