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ORGANIC VALLEY: AGENT OF CIVIL SOCIETY IN THE MARKET

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Abstract

The dissertation establishes the ability of civil society to shape the outcomes of large-scale economic processes through direct market involvement by hybrid organizations that function as agents of civil society in the market. I analyze the case of Organic Valley, an agricultural cooperative that stands out in its combination of scale and strong social and environmental commitments. The cooperative generates collective goods that are typically thought of as the domain of markets and states: coordinating supply and demand, redistributing value and power, and regulating risk and market volatility.

I identify three conditions that allow agents of civil society in the market to realize alternative visions of socioeconomic order. First, to have large-scale impact, an organization needs to establish a structural position of a lead firm in a large value chain, allowing it to determine the division of labor, the conditions of participation, and the distribution of value in the chain. Organic Valley maintains governance rooted in civil society over economic activity that spans a network of over two-thousand firms. It is thus a node between the commercial world of the food industry and multiple fields of social organizing, embodied in the tradition of agricultural cooperatives and the organic and environmental movements.

Second, agents of civil society in the market require strategies and governance instruments that would allow them to effectively pursue their alternative goals. Organic Valley innovated new such instruments and adapted common ones to its unique mission, securing prices for its farmer-members' milk that are high and stable enough to support pasture-based, family-scale dairy farming.

Third, agents of civil society in the market need to defy isomorphic pressures and reproduce their civil society identity as they become major economic actors. This has been a challenge for agricultural cooperatives in the US, which turned throughout the 20th century

from challengers to incumbents and lost their footing in civil society. Organic Valley's ability to reproduce its hybrid identity has depended on association with contemporary social movements, structural innovations that buffered it from pressures to maximize company value, and participatory governance processes that facilitated organizational learning and cohesion between farmers and employees.

Chapter 1: Introduction

In April 2016, more than 450 farmer-owners of CROPP Cooperative and many of its employees gathered in La Crosse, Wisconsin, for the cooperative's Annual Meeting. CROPP, better known as its brand name, Organic Valley, marked 27 years since its foundation in 1988 by seven struggling farmers¹. The cooperative's CEO, George Siemon, addressed the audience at La Crosse Center and others watching meeting streamed online, acknowledging a successful year for the cooperative². "We've never had a year like 2015," Siemon announced to the audience, "record pay price, record profits, record premium." In the previous year, the cooperative crossed for the first time the mark of \$1 billion in sales, but this was not the emphasis of Siemon's account of Organic Valley's success. Instead, Siemon emphasized an unusual measure for success — the price that the cooperative paid farmer-owners for the raw organic milk they supplied it. "When we started the co-op we set out to reach \$17.50 [per 100 lbs. of milk], that was our target — some thought we were dreamers." But now they had more than \$17.50 premium over pay prices for conventional milk, which even Siemon had never imagined. This success, Siemon emphasizes, should never be taken for granted:

This is a major accomplishment we should celebrate every year that we have a stable and — we used to say sustainable or profitable pay price, I actually don't think there's anything wrong with farmers prospering. And we have accomplished it now, and it's been — over and over I hear that these stable prices aren't possible, and [I'm] just very proud that we've been able to pioneer that and deliver that and hope that we'll always be able to do that. The hardest part about stable price is supply and demand, having the right amount of milk at the right time. It's doubly hard when you try to restrict yourself to membership only production. It means all guesses have to be

¹ In the dissertation, I will refer to the cooperative as Organic Valley. Cooperative insiders use both Organic Valley and CROPP.

² The text is transcribed from a recording of the video streaming of the annual meeting.

correct, so it's a big challenge we go through and it's a major accomplishment we have.

Figure 1: George Siemon address at Organic Valley's 2016 annual meeting



Source: CROPP Cooperative

Accounts of organizational success are telling. They are at the same time accounts of worth (Stark 2011) and accounts of identity, commenting on the questions “what do we count as success?” and “what are the values that define us?” And Siemon’s account of success is far from conventional business terms that emphasize growth, profits or shareholder value – instead highlighting Organic Valley’s ability to provide a high and stable price to the farmers.

The goals that Organic Valley set for itself are not simply uncommon, but, as Siemon noted, their attainment is highly unlikely. Organic Valley markets organic milk from nearly 1,500 farms, almost half the volume of organic milk that is produced in the U.S. In a dairy industry that faces strong pressures towards industrial farming methods, Organic Valley has been maintaining a pay price that is high enough and stable enough to support pasture-

based, family-scale dairy farming. By doing so, the cooperative resists market pressures and realizes a vision of organic dairy farming that it deems more socially and environmentally sustainable. And in order to do that, it manages risk and market volatility, and shifts the distribution of power and value in the organic dairy value chain toward farmers. These tasks – realizing values-based visions of economic development, mitigating market volatility and redistributing value – are sometimes undertaken by governments, but we do not have a good account of the possibility of their accomplishment by firms. The possibility of this achievement is the first puzzle suggested by the case of Organic Valley.

One might classify the case of Organic Valley as a “private solution” to the production of public goods. However, Organic Valley is not simply the endeavor of private, individual social entrepreneurs, but a collective effort by multiple stakeholders, which is governed by farmer-owners through participatory democratic processes. The cooperative identifies itself with the organic social movement and seeks to promote through its economic activity a certain understanding of the movement’s goals. Scholarship on the production of economic public goods typically distinguishes between private and public solutions, promoted respectively by the market and the state. However, I suggest that as a mission-driven cooperative with participatory governance, Organic Valley can be seen as an agent of civil society in the market – a hybrid organization that combines elements of a business enterprise, social movement organization and a civic association. As Siemon proceeds with his discussion of Organic Valley’s success, his focus shifts toward Organic Valley’s role in the organic movement:

I really think that I have to get up here every year and remind us that we have a role in a bigger picture than just us co-op. We just can’t be focused on our own selves. We have a great legacy of being a primary leader in the organic movement, and it’s something that I’m very proud of. We’ve always been the one reaching for the higher standards, for the mission orientation of it:

transitioning land, working on regulations. Right now we're working on protecting the grass fed dairy, we're providing leadership there. And I think it is very important that it's something that we remember that and keep doing that. And it's something I'm very proud about our [Farmers Advocating for Organic] fund, kind of our leading edge of our serving a bigger community and leading the organic movement. And it's something that I really appreciate you all being part of doing that, and something that's important.

I also think it's very important that we remember our community mindedness through our cooperation, it's about community mindedness for me [sic]. And if I had to say, what the founders of this co-op wanted was to serve a bigger community and try to do things the right way, with the focus on family farms. And I think that's something we need to remember now as we get bigger. And not just how it affects our individual farm, but what's our role in the bigger society, because organic is a change agent. It's almost hard for me to believe the more I get into food how much food touches every aspect of our life, the environment and everything. And it's amazing to see, and I'm very proud to see, organic farmers leading that change. And that's a great thing for us to recognize and to keep going.

In this account, success is viewed as Organic Valley's ability to "serve a bigger community," and promote societal change through farmers' leadership in the organic movement. These goals are part of Organic Valley's hybrid character, underpinning its ability to produce public goods by civil society. However, there is an established body of scholarship suggesting that Organic Valley's hybridity should also makes it vulnerable to "mission drift" as it grows, with market considerations and organizational survival taking priority over social and environmental goals. Thus, the second part of the puzzle that the case of Organic Valley suggests is the cooperative's ability to reproduce its identity as a civil society organization at its current scale. As George Siemon proceeds, he recognizes this challenge and urges members of the cooperative to find ways to maintain genuine democratic participation by farmers as Organic Valley grows:

If you read my [address in the 2015 Annual Report], I called for Renewing Democracy, renewing our co-op, you know it's something I feel strongly about. We spend a lot of time growing the business, getting pay price, but as I look forward, I want to invest in what it takes to be a meaningful engagement for the members in this co-op. So it's not just a market, but it's something to have pride in . . . You know, we are a diverse group of stakeholders working

together for a common mission, and that's really what cooperatives are about . . . I think going through renewal is a positive thing, and we can't just say 'we'll keep doing what we've always done,' we need to be looking around. So that's the challenge I'm putting out to the co-op . . . And we need to not be afraid trying different things and doing different things. It was pioneering to start a co-op like we've done, and I think it's just as pioneering to figure out how we can make this co-op as strong and meaningful for the members beyond just pay price in the next 10 years.

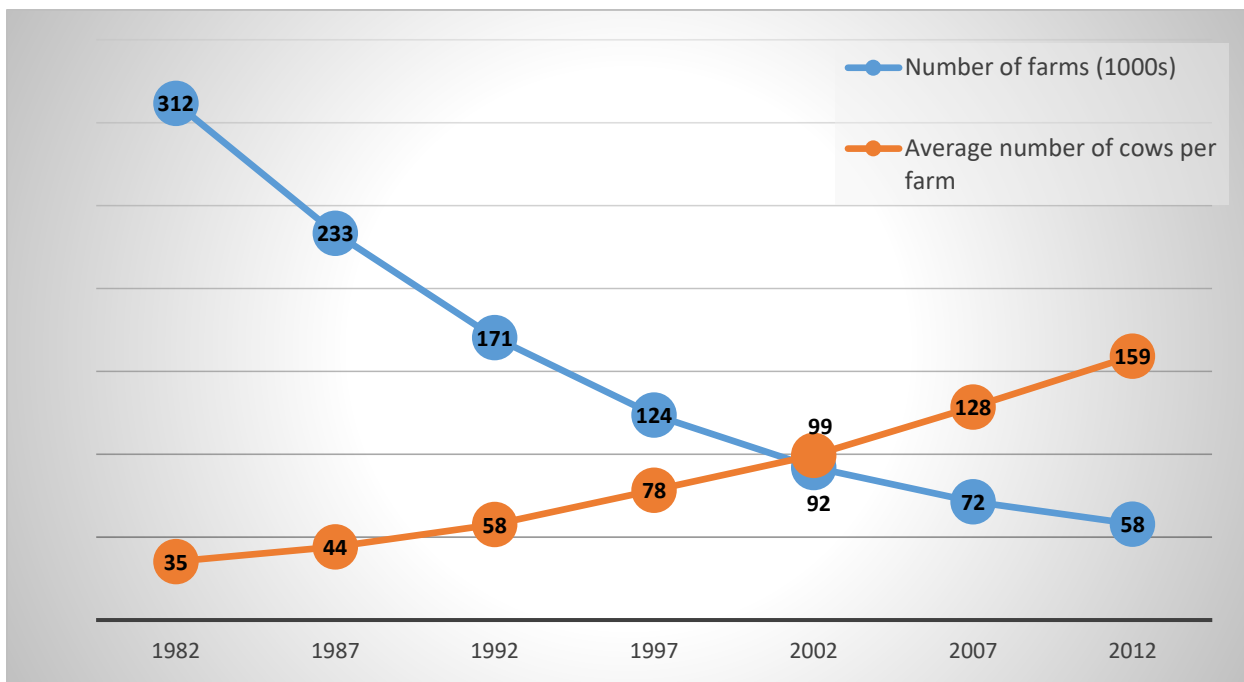
My dissertation seeks to explain the two puzzles presented by Organic Valley's dairy value chain, finding the processes and conditions that allowed it: 1) to realize at large scale a values-based vision of economic development despite opposing market pressures, and in doing so, mitigate market volatility and redistribute value and power, and 2) to maintain Organic Valley's identity as a hybrid between a business enterprise and a civil society organization. Explaining these puzzles would allow me to reflect more generally about the possibilities and limitations of civil society organizations to realize alternative visions of socioeconomic order through direct involvement in the market.

THE PUZZLE OF MAINTAINING HIGH AND STABLE PAY PRICES

The significance of Organic Valley's mission of maintaining high and stable pay prices, as well as the challenge of its accomplishment, can be appreciated against the context of the U.S. dairy industry. Like the rest of the agri-food industry, the conventional dairy sector in the U.S. has been undergoing profound changes, as milk is increasingly produced by larger, fewer farms that use industrial production methods. This trend is driven by technological changes in industrial dairy farming that reduce production costs and place competitive pressures on the entire industry to further industrialize and concentrate. These changes are associated with a relocation of dairy farming from the East Coast and Upper Midwest to Western states, where farms tend to be much larger. The technology and organization of larger, industrial farms are fundamentally different from those of smaller

“traditional” farms. Small-scale dairy farming tends to be based more on pasture grazing, rely on family labor, and involve more on-farm production of inputs, such as feed and replacement cows. Large-scale dairy farming tends to involve the confinement of cows in large barns or feedlots, rely mostly on hired labor, and depend heavily on purchased inputs (Short 2004). Larger farms enjoy lower costs and higher profitability than smaller farms, which drives milk prices down and pressures many smaller farms to either expand or go out of business (MacDonald et al. 2007). As a result, between 1982 and 2012, the number of dairy farms dropped dramatically from 311,800 to 58,000, while the average number of cows per farm grew from 35 to 159.

Figure 2: The trend toward fewer and larger dairy farms in the U.S.



Source: USDA, National Agricultural Statistics Services.

Correspondingly, the percentage of milk produced by farms with less than 200 milk cows dropped from 55 to 24, while the percentage of milk produced by farms with more than 500 milk cows grew from 29 to 63 (USDA NASS data).

To some extent, these trends are mirrored in the organic dairy sector, where farms face similar pressures to those in the conventional dairy sector. Larger organic dairy farms, like conventional ones, enjoy lower costs and higher profits, putting competitive pressures on the entire sector. Starting from the late 1990s, large dairy farms in the West with thousands of confined milk cows were converted to organic, placing market pressures on the entire sector. Guptill (2009), studying organic dairy farming in upstate New York, documented such pressures toward intensification. At least some of the new large farms took advantage of ambiguities and loopholes in the standards to practice dairy farming in ways that are far from the spirit of the organic regulations. Until 2010, the regulations had a requirement to allow organic livestock access to pasture, without further specifications. This allowed some farms to feed organic cows in confined feedlots, with pasture being only a negligible portion of their feed. The regulations also allow farms to reduce prices by buying conventional replacement heifers rather than raising them organically. While this rule was created to ease the conversion of new farmers into organic, it created a loophole that is exploited systematically by large industrial farms.

Yet, the organic dairy sector remains a genuine alternative to conventional agriculture. Organic dairies are significantly smaller than conventional dairies, and in 2005 the organic sector had 82 milk cows per farm, compared with 156 in the conventional dairy sector. In 2005, organic dairies were far more pasture-based, with 63% of organic dairy farms feeding most of the forage from pasture during the grazing months, compared with 18% for conventional dairy farms. At the same time, organic dairy farmers expressed more optimism about their future prospects. Only 16% of organic dairy farmers expected to exit the dairy business within five years or less, while 47% expected to remain in business for at least 20 more years. The numbers for conventional dairy farmers were 25% and 30%,

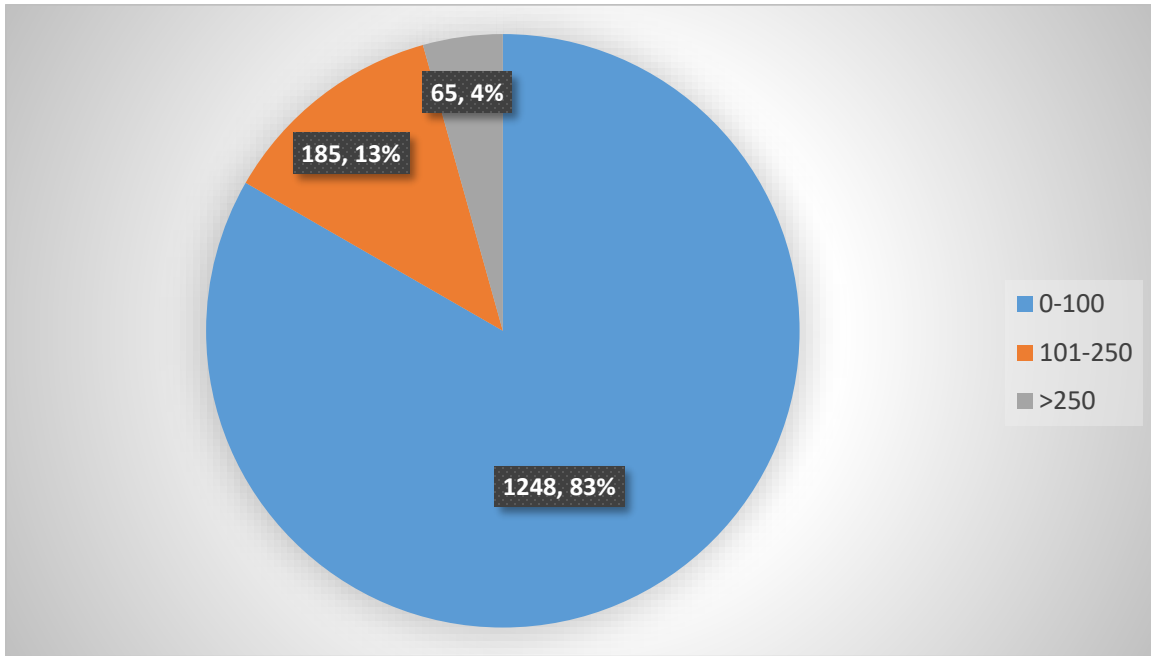
respectively. Dairy is one of the fastest growing organic sectors. Between 2006 and 2013, organic milk production more than doubled, growing from 1,062 to 2,264 million lbs. At the same time, the share of organic milk in the total U.S. milk production grew from 1.92% to 4.38%.

As one of the largest companies in the U.S. organic dairy sector, Organic Valley plays a major role in resisting conventionalization pressures. In 2011, 1,366 of the 1,823 U.S. dairy farms that sold certified organic milk (75%) were Organic Valley members, and together they accounted for 43.6% of the U.S. organic milk production³. Organic Valley's higher share in the number of farms comparing with its share in milk production implies that the cooperative's farms were smaller on average than organic farms nationally. By the end of 2013, 83% of the farms in the cooperative had 100 or fewer milk cows, and the average herd size was 80 milk cows⁴.

³ Data about organic farming in the U.S. is from (USDA, National Agricultural Statistics Services, 2012. 2011 *Certified Organic Production Survey*). Data about Organic Valley is from *CROPP 2011 Annual Report*. Calculations of Organic Valley's share in the U.S. number of farms and milk production may be compromised by methodological differences between the two sources of data.

⁴ http://www.organicvalley.coop/fileadmin/pdf/pools/EOY_2013_Herd_Size_Chart.pdf, retrieved on 2014-12-10.

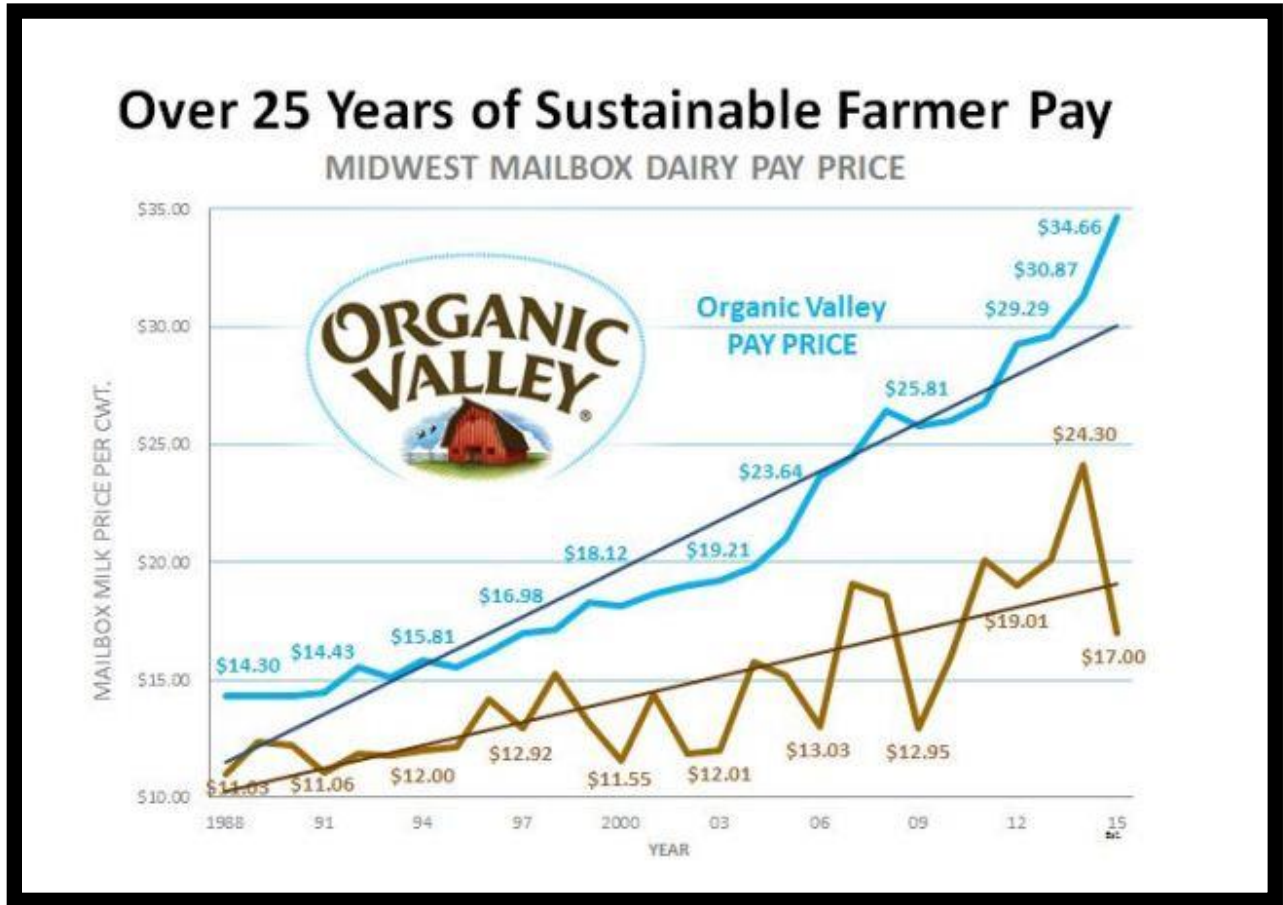
Figure 3: Number of Organic Valley dairy farms by herd size, 2013



Source: Organic Valley's 2013 Herd Size, http://www.organicvalley.coop/fileadmin/pdf/pools/EOY_2013_Herd_Size_Chart.pdf, retrieved on 2014-12-10.

Organic Valley holds conventionalization trends at bay for its farmers, and to an extent in the entire organic dairy sector (Barham 2010; Guptill 2009). On the one hand, the cooperative promotes high standards for organic dairy production – internally and for the entire sector – and invests in innovation and capability building among its farmers that would allow for the maintenance of high production standards. On the other hand, Organic Valley relieves competitive pressures toward intensification and consolidation by providing a high pay price to its farmers. Over the years, this price has consistently remained higher and more stable than the commodity price for conventional milk:

Figure 4: Organic Valley's vs. conventional milk pay price over time



Source: CROPP Cooperative

Organic Valley's mission of maintaining high and stable pay prices exposes it to tough competitive challenges. One of Organic Valley's marketing managers shared an anecdote about a colleague from a different company who teased him in a conference: "Are you really telling me that your job is to maximize the cost of your primary ingredient?" On the one hand the cooperative seeks to increase pay prices for its suppliers, while on the other hand it works to cultivate pasture-based farming methods that are not as efficient as more industrial, input-intensive methods. My dissertation analyzes the processes that allows Organic Valley to meet this challenge.

THE PUZZLE OF REPRODUCING CIVIL SOCIETY IDENTITY

In recent years, there has been an influx of research on the ways social movements shape markets. This literature suggests that movements have been increasingly seeking direct involvement in the market, partially in response to the decline in the regulatory power of states and the rise of the power of multi-national corporations (Soule 2009). Particularly, social movements have been shown to play key roles in fostering entrepreneurship and the emergence of industries and market categories that embody their values (King and Pearce 2010; Weber and Soderstrom 2011). At the same time, social entrepreneurship, the pursuit of social change through market activity, has become a popular concept and appears in the curriculum of the world's leading business schools. In 1993, the term "social entrepreneurship" had just one mention in media sources according to the search engine newslibrary.com, a figure that grew to 1,499 mentions two decades later⁵.

Despite the prevalence of these notions, scholarship has argued for the tendency of entrepreneurship for social change to lose, as it grows to a large scale, much of its social transformative potential and its adherence to the values drove it in the first place. The case of Organic Valley offers an interesting exception to these expectations with its combination of mass market reach and strong commitment to social and environmental goals. Specifically, analysts of the organic movement in the U.S. have noted a division between activists and small businesses that follow the original vision of organics as a vehicle for wide-ranging social and economic transformation, and those who promote the spread of organics to the mainstream and their adoption by big agribusiness. Here again, the case of

⁵ Searched on June 29, 2015.

Organic Valley does not fall easily into these two categories, suggesting the need to reconsider them. The rest of this section reviews key bodies of scholarship that set the background for this puzzle.

Social Movements in Emerging Industries

Theories of social movements in emerging markets suggest that social movements' influence may be limited to entrepreneurship at the initial stages of industry emergence. Social movements' capability to mobilize market participants on moral grounds is well suited for fostering entrepreneurship in new industries. In fact, some scholars go as far as to argue that industry emergence always happens through social movement processes (Hargrave and Van de Ven 2006; King and Pearce 2010; Fligstein and McAdam 2012). Studies show how social movements have affected the development of the wind energy industry (Sine and Lee 2009; Vasi 2010), the recycling industry (Lounsbury, Ventresca, and Hirsch 2003), the grass-fed beef and dairy sectors (Weber, Heinze, and DeSoucey 2008), and the market for nonprofit technology assistance providers (McInerney 2014).

Social movements drive the emergence of new industries in several ways. They use mobilization to legitimate the new industry and inform potential stakeholders (Sine and Lee 2009; Vasi 2010). They motivate entrepreneurs to take on the significant risk of entering the new industry and developing new technologies (Weber, Heinze, and DeSoucey 2008). When new industries yet lack infrastructure and state support, social movements can mobilize the resources that are needed for the industry's nascent development (Schneiberg, King, and Smith 2008; Hiatt, Sine, and Tolbert 2009). Finally, social movements can establish the categories, identities, and connections between producers and consumers that are required for the development of a new market (Weber, Heinze, and DeSoucey 2008).

However, as social entrepreneurial industries mature, their continued development comes to depend on different resources and capabilities (Carlos et al. 2014). Mature industries already have established market categories and identities, and have less need for their creation and legitimation by social movements. As industries evolve, they also develop their own industry infrastructure and secure state support, which further reduces their dependency on social movements. At the same time, as the ideological push in such industries turns into a market pull (Hiatt, Sine, and Tolbert 2009), the industry no longer depends solely on ideologically motivated entrepreneurs. Mature industries attract profit motivated players who do not necessarily share the ideals of the social movement that fueled the emergence of the industry in the first place.

As the resources and capabilities that initially drove the emergence of the industry lose their significance, new conditions gain salience. Success in a mature industry requires very different resources and capabilities, such as access to capital, logistical capabilities, effective marketing to a broader set of customers that are not adherents of the social movement, and effective working relationships with incumbent organizations in the established industry. Such resources and capabilities are typically possessed by established industry players, but not by social movement organizations. Thus, the conditions for success in a maturing industry can favor new entrants to the social entrepreneurial industry that are purely for-profit businesses, particularly large incumbent businesses in established adjacent industries.

Even firms that were identified with the social movement in the early stages of industry emergence have this identity threatened with the maturation of the industry. As the new industry matures it often becomes a niche market within the established industry, and therefore more dependent on it. Such a dependence on the environment creates a need for

legitimacy with it (DiMaggio and Powell 1983), which leads to a tension between the mainstream expectations of the established industry and the oppositional identity of the social movement.

For example, the first phase in the emergence of the U.S. recycling industry was driven by activists that followed a model that involved “a set of non-profit, volunteer-organized practices aimed at community-building” (Lounsbury, Ventresca, and Hirsch 2003, 73). However, this first stage hit a limit as the social movement failed to secure markets for recycled materials, or win the support of the established solid waste industry and governmental agencies. As the first phase of the industry grew stagnant, a second, more pragmatic wave of environmentalists forged a coalition with the solid waste industry and gave rise to a for-profit model for recycling. This model proved economically viable and spread widely, but Weinberg, Pellow, and Schnaiberg (2000) argue that the movement that drove the industry’s emergence was co-opted in the process. While community benefits remained pervasive in the discourse on urban recycling, in practice they disappeared as principles that guided the industry.

In another case, McInerney (2014) shows how the Circuit Riders, a social movement that promoted information technology in nonprofits, sparked the creation of a moral market based on an organizational model of social enterprise. The new market greatly helped the diffusion of information technology, but had a commercial focus instead of the movement’s original emphasis on social justice and environmentalism. Ultimately, the rise of the market for technology assistance services in the nonprofit sector led to the withering of the Circuit Riders as a social movement. This case demonstrates the influence of competing institutional demands on the values that drive social enterprises. McInerney theorizes this situation as “moral ambivalence,” with a tension between competing accounts of worth that

emphasize social or economic values. The value of technology for nonprofits could be accounted for either in terms of social justice and mission, or in terms of effectiveness and efficiency. The dependence on funders – foundations and corporate donors – led to an emphasis on the latter, and the institutionalization of performance metrics that reflected economic values.

Overall, theories of social movements in emerging industries suggest that there are powerful processes that limit the influence of a social movement over a maturing social entrepreneurial industry. In order to remain viable in mature industries without experiencing “mission drift,” business enterprises that are identified with a social movement would need to 1) adjust to the resource and capability requirements of a mature industry; 2) secure their legitimacy with the environment of incumbent firms without compromising their social movement identity.

Social Enterprise Hybrids

Theories of social enterprise hybrids highlight the challenges such organizations face due to tradeoffs between their social and commercial goals and due to illegitimacy discounts by key audiences. A social enterprise is an organization that uses commercial methods to pursue social outcomes. The term appeared in the early 1990s in both Europe and the U.S., evolving mostly in parallel trajectories until the mid-2000s (Defourny and Nyssens 2010). Organizational scholars have only recently begun to seriously attend to social enterprises (Gidron and Hasenfeld 2012), predominantly theorizing them as hybrid organizations that combine elements from different sectors. Concepts of social enterprise hybrids reflect their distinct trajectories in Europe and the U.S. European scholars have tended to consider social enterprises as combining elements from the state, market, and non-profit sectors (e.g.

Billis 2010; Doherty, Haugh, and Lyon 2014), while for U.S. based scholars the “raw materials” for social enterprise hybridity come only from the market and non-profit sectors (e.g. Battilana and Lee 2014, Haigh and Hoffman 2014).

Hybrids are produced in spaces of institutional overlap (Murray 2010), and indeed, most academically documented social enterprises are positioned in the margins between the market, the state, and the third sector. They employ market methods to provide services and/or employment to vulnerable populations that are otherwise served by the state or by charities. Hence, they do not typically compete with high profit, established industries, but rather with pure forms of nonprofits and social service agencies. The obstacles to social enterprises’ participation in profitable, established industries can not only be inferred from the lack of documented cases, but are also implied by theoretical considerations.

Organizational theories of social enterprises emphasize the challenges such organizations face due to their hybrid character, and these challenges make it hard for them to compete with profit-driven businesses (Smith, Gonin, and Besharov 2013; Battilana and Lee 2014). These challenges can create a tension between the social purpose of these organizations and the imperative of organizational survival (Selznick 1949). Social enterprises may face the choice between being outcompeted in the market or experience a “mission drift,” losing their hybrid nature and becoming more like a pure business (Scott and Meyer 1991; Ebrahim, Battilana, and Mair 2014).

One set of tensions social enterprises face has to do with the tradeoffs they need to make between their social and commercial goals (Moizer and Tracey 2010). For example, Tracey, Phillips, and Jarvis (2011) document such tensions in the case of Aspire, a path breaking British social enterprise that created and legitimated a new organizational form for supporting the homeless through work integration. Aspire’s efforts to scale its social impact

resulted in financial difficulties, which led to increased focus on profitability at the expense of social goals and ultimately to business failure. In another case, Jay (2013) shows that while pursuing simultaneously social and commercial goals, success in one domain can be seen as failure in the other. In the context of social enterprises that operate in established industries, such tradeoffs can be seen as a constraint that the social mission places on the organization's business activity. Such a constraint is expected to put the social enterprise at a disadvantage when competing with purely for-profit firms.

Another challenge hybrid organizations may face is suffering "illegitimacy discount" due to their violation of established categories by audiences who control material or symbolic resources that are important for the organizations' success or failure. Zuckerman (1999) shows that firms that were evaluated as members of a category with which they did not neatly fit failed to meet the expectations of security analysts and therefore had their stock price discounted. Hsu, Kocak, and Hannan (2009) demonstrate how such illegitimacy discounts are suffered by hybrid products – feature films and products on eBay auctions – due to their membership in multiple categories (see also Zuckerman et al. 2003; Hsu 2006.). In the case of social enterprise hybrids, Lee (2014), based on a longitudinal analysis of 457 nascent social ventures, finds that those that combined aspects of the business form were less successful in attracting capital and meeting other entrepreneurial goals than the purely nonprofit organizations. In sum, the literature suggests that social enterprise hybrids would face tough challenges expanding from their typical positions in marginal sectors into established, profitable industries.

The Organic Movement and Industry

The organic agri-food industry in the U.S. has followed a trajectory that fits well with the above discussion of the evolution social entrepreneurial industries. During the last 50 years, the sector evolved from small scale beginnings by social and environmental activists to a thriving industry that had in 2014 \$35.9 billion in annual sales (Organic Trade Association 2015). The organic food movement has drawn its ideological roots from a variety of sources, mostly the agrarian, the counterculture of the 1960s and 1970s, the health food, and the environmental movements (Guthman 2004a). The movement started its development on a significant scale after World War II, with multiple experiments on a small scale guided by J. I. Rodale's magazine *Organic Farming and Gardening*. During the formative years of 1965-70, around 3,500 rural communes have been established, mostly small and short-lived, which practice organic agriculture for subsistence-based living. This experimentation was characterized by romanticism and radical ideologies. During the 1970s, organic farms and small businesses increasingly sought to make a living by cultivating producer-consumer relationships and selling to local markets (Belasco 1989). With the diffusion of organics into the mainstream, organic certification organizations developed as mechanisms of self-governance of the emerging social entrepreneurial industry. The nascent sector grew and became institutionalized with a series of legislations and USDA mandated organic regulations that codified of the organic standards, starting from 1990.

These organic regulations were shaped by advocacy from farmers, consumers, and environmental organizations. Most notably, the organic movement responded with massive mobilization to a 1997 proposed rule that was perceived by activists as dramatically lowering the bar of organic standards. Through mobilization structures of natural food co-ops, health

food stores, and consumer associations, the movement generated an unprecedented number of nearly 300,000 public comments on the proposed rule and induced the passing of a revised version of it (Ingram and Ingram 2005). However, the codification of the organic regulations and the growth of the market attracted new market players that were not associated with the social movement and created an incentive structure that encouraged minimization of organic standards in the search for greater efficiencies.

In the academic scholarship about the organic industry, the main debate has been about whether the organic industry is conventionalizing and bifurcating. The theses about the conventionalization and bifurcation of organics were first suggested by Buck et al. (1997), based on their study of the organic vegetable commodity chain in northern California. Buck et al. observed the penetration of agribusiness capital into the organic industry, its tendency to industrialize and reconfigure farming practices, and its ability to appropriate the most lucrative aspect of the commodity chain. They also observed that the organic market was bifurcating into large, specialized, mass-producing operations on the one hand, and smaller, diversified, artisanal farms on the other.

In the following debate, it has been argued that the mass-market organic industry has been conventionalizing along three main dimensions: 1) technically, moving away from the original principles of organic farming toward the most efficient production practices allowed by the organic regulation; 2) structurally, mimicking the corporate controlled conventional agri-food industry; and 3) politically, becoming driven by profit rather than by the ideals of the alternative food movement (e.g. Guthman 2004a; Guthman 2004b; Howard 2009). In a related study from the perspective of resource partitioning theory, Sikavica and Pozner (2013) argue that the organic niche market de-partitioned as a result of the social movement's failure to generate a sharply defined specialist form identity, and

therefore its inability to effectively sanction violations by generalists posing as specialists. The extent of conventionalization processes and their generalization to countries other than the U.S. are debated among scholars, but there is general agreement on the rise of corporate players in the organic industry and the prevalence of pressures toward more intensive and efficient farming methods.

Recent analysts of the organic movement identify an ideological rift in it that roughly corresponds to the bifurcation thesis (Obach 2015; Haedicke 2016). On the one hand, some activists see organics as a tool for broad social transformation that works in opposition to (or, at least, outside of) established social institutions; on the other hand are those who welcome the spread of organics to the mainstream and their adoption by big agribusiness. The case of Organic Valley defies the categories in these accounts of the organic movement and industry. Organic Valley embraces the national mass market and contributes to concentration in the organic dairy sector, yet largely resists conventionalization pressures. Following the dimensions of conventionalization identified above, we can say that 1) technically, Organic Valley promotes high, pasture-based standards of organic farming; 2) structurally, Organic Valley is independent of corporate control and is instead democratically governed by its farmer-owners; and 3) politically, Organic Valley is driven by an ambitious social and environmental mission rather than profit. My dissertation seeks to use this case to revise the account of the organic industry and elaborate a third model, of a mission-driven mass market value chain.

METHODS

This dissertation employs a case study method, developing a detailed empirical account of Organic Valley. As an exceptional case, it challenges existing theories of

economic enterprise for social change, which cannot sufficiently account for its possibility. This violation of theoretical expectations reveals weaknesses in existing theories and calls for their expansion and revision (Burawoy 1998; Yin 2013). A single case study research does not involve direct comparison to other cases, but rather the case is examined against theories. Yet, comparison is implicit in this method to other cases on which the referred theories are based.

At the first, exploratory stage of the research, I was looking to study the conditions for the development of large-scale, socially committed agri-food economies. I collected information about the work of multiple organizations in this field, interviewed people involved with it, participated in events, and read case studies. A published case study (Stevenson 2013) drew my attention to Organic Valley, giving me an overview of the cooperative's mission and main strategies it used to pursue it. This case study was part of a series of nine case studies of "value-based food supply chains," which were driven by shared values among supply chain partners and oriented to the welfare multiple supply chain partners (Stevenson and Pirog 2008). My exploratory research and the case study series revealed that Organic Valley was exceptional among U.S. alternative agri-food initiatives in its combination of mass market success and ability to realize a strong mission. I decided to focus my research on the cooperative, seeking develop a theoretical account of the conditions of possibility for this achievement.

An opportunity to gain access to Organic Valley came in a sustainable agriculture conference in North Carolina in November 2013, where representatives of the cooperative held a session on pasture based farming and gave an overview of the cooperative. After the session, I got in touch with the regional pool manager for the southeast region, and interviewed him in the following month. The regional pool manager referred me to other

people in the organization, and after a series of communications, I visited the headquarters in March 2014 and received George Siemon's endorsement for the research. I was assigned a contact person, Rebecca Zahm, an administrative assistant who has been with the cooperative for a long time, and who serves as an archivist and a tour guide in visits in the headquarters. Throughout the research, Zahm helped me to get information I needed and coordinated my research visits. In addition, she and her husband kindly invited me to stay at their house, a few miles from the headquarters, during my Wisconsin fieldwork.

Data Sources

I was fortunate to study an exceptionally transparent organization that made available to me a lot of information. I also benefitted from conducting my fieldwork after having gained a preliminary sense of the work of the organization, through a case study about it (Stevenson, 2013) and a book the cooperative published on the first 25 years of its history (CROPP, 2013a). These, and some preliminary interviews, allowed me to develop research questions that oriented my data collection.

Interviews

I conducted 41 semi-structured interviews with 37 of Organic Valley's employees and board members. Interviews lasted between 30 minutes and two hours, and were mostly between 1 and 1.5 hours. Most of the interviews were recorded and transcribed, and I wrote notes that documented the few interviews which were not recorded. Most of the interviews were held during three weeks of fieldwork that I held in Wisconsin. Before my visit, I received an organizational chart, and sent the coordinator of my visit a list of people I wanted to interview. Scheduling in advance greatly helped me to make efficient use of my time in the field.

On a first round of interviews, I targeted mostly mid-level managers from the cooperative's various business units, in order to get a comprehensive sense of Organic Valley as an organization. On a second round, I built on that knowledge to refocus my questions and conducted more interviews with senior management, board members, and other employees at various positions that seemed important. My criteria for selecting interviewees included: individuals who performed work that seemed central to the realization of the mission; individuals who performed work that seemed distinctive for Organic Valley; and individuals who performed work that was particularly relevant to my research questions or who were recommended by other interviewees for their ability to answer my questions.

Before my fieldwork, I prepared a list of research questions that would guide my research, and translated those research questions into interview protocols. Main questions that emerged include: Why does Organic Valley invest in relationships rather than brick and mortar? How does the mission influence Organic Valley's relationships with stakeholders? How has Organic Valley met its capital needs over the years? How does Organic Valley leverage its mission to secure market premium from consumers? With all of my interviewees, I was trying to understand how the mission affected their work, the role of relationships in their work, and what was distinct in their domain about the operation of Organic Valley.

Interview questions were quickly evolving throughout the research, as I was learning new information. Some questions were answered, some turned out to be irrelevant or uninteresting, and new questions emerged. Since my days were typically full with interviews and field observations, I had to develop a system that would allow me to quickly reflect on my research questions and reorient my research to new information I was learning. I had a

document with tables that concisely summarized my research questions around the main puzzles that motivated the research, allowing me to review them quickly. I found it useful to manage my interview protocols with an Excel file that had a list of questions, assigned to different categories. Before an interview I could quickly review the questions, select the ones I wanted to use, and often revise, or add new questions. Then, I would add a dedicated column for the interview, number the questions that I wanted to use according to their order, and filter and sort the Excel file to produce an interview protocol. By the end of the fieldwork, the Excel file included 117 interview questions.

Participatory Observation

I conducted a total of about four weeks of fieldwork, including three weeks in Wisconsin and several observations in North Carolina. In Wisconsin, my home base was Organic Valley's headquarters in La Farge, rural Wisconsin, where I received office space. I spent my days preparing for and conducting interviews, participating in organizational activities, talking to people, and venturing to other locations for participant observations or interviews. Key participant observation activities included: a tour of Organic Valley's distribution center in Cashton, a tour of Organic Valley's only own processing plant in Chaseburg, joining a milk hauling route, employee trainings on continuous improvement and being ambassadors of the mission, employee gatherings for updates and discussions on the state of the co-op, an evening social event for all the local employees, and a farm tour for employees. During and after workdays, I had multiple opportunities for informal interactions with employees, farmers, and community members, including my hosts. In North Carolina, I visited three dairy farms, including attending an event in which Organic Valley's ruminant nutritionist gave a training session in one of the cooperative's farms. The

training was followed by a “pasture tour” of the farm and discussions among farmers. I also attended a North Carolina presentation on pasture-based dairy farming that was partly aimed at recruiting new farmers to the cooperative. Finally, I viewed the plenary days of the 2015 and 2016 annual meetings through video streaming. I documented my observations in field notes, some of which I spoke and recorded during drives between locations.

Internal Archival Materials

In the archival research I used a variety of internal documents about Organic Valley. Some of these were given to me upon a specific request, including monthly communications of the cooperative to its members since its founding in 1988 that reported on and discussed current issues; documents specifying internal policies; videos of its 2015 Annual Meeting and monthly employee meetings; the cooperative foundation documents (bylaws, business principles, etc.); various documents with information that came up in interviews; and transcripts of interviews that were conducted as part of the research for the book on the history of the cooperative. I gained access to another set of documents when I was invited to browse through the shared hard drive for cooperative employees and copy files to my flash drive. I had an hour or two to copy any documents and folders that seemed useful, obviously with no ability to choose carefully. This set includes an assortment of documents, including minutes of multiple meetings, presentations and reports by different organizational units, and planning documents. In total, I collected 2,694 such documents. The volume of documents was too high for me to analyze fully and systematically. Instead, I analyzed documents that seemed particularly pertinent to my research questions. Searching the entire body of documents for key terms was often an effective method to identify useful documents.

Publically Available Archival Materials

Archival materials also included publicly available sources, such as annual reports, media articles, websites, grey literature case studies about Organic Valley, and a book (CROPP 2013a) that the cooperative published, documenting its historical development between 1988 and 2013.

Evaluation of Methods

The methods have the merit of giving a good all-around understanding of Organic Valley, including different organizational units, different hierarchical levels, and different aspects of the organization (e.g. structure, strategy, and culture). This all-around understanding allows for an exceptionally detailed documentation of the multiple internal processes and interactions through which a lead firm governs a large agri-food value chain. It gives a good idea of the viewpoint of the lead firm and the ways it coordinates multiple interrelated value chain activities. The combination of methods allows for triangulation of information and for its understanding from different perspectives.

At the same time, the focus on the lead firm introduces methodological weaknesses. My analysis highlighted the importance of relationships with value chain partners to Organic Valley's ability to govern the value chain in light of its mission. A fuller analysis of relationships, as a main unit of analysis, would require talking to the other parties in these relationships as well: farmers (I talked to only a few of them), processing plants, social investors, retailers, etc. Obviously, this task is much more demanding, since there are over 2,000 organization in Organic Valley's dairy value chain. Yet, even a small sample of these stakeholders would make the account much richer.

In addition, further development of some of the arguments that this dissertation introduces is likely to require additional data collection. A deeper inquiry into the processes through which Organic Valley is able to reproduce its hybridity, for example, may require more data collection on the conflicts and tensions that threaten this reproduction. During my fieldwork, organizational members were not necessarily eager to emphasize such points of tension, and I would need to use my analysis here to sensitize myself to the kinds of evidence I would need to fully develop this argument. Other analyses that may be useful in further development of this work include more historical analysis of the development of Organic Valley over the years and fine grained comparisons of it to other cases.

Chapter 2: Organic Valley - Overview

CROPP Cooperative, or Organic Valley, is the largest organic marketing cooperative in the U.S., with \$1.04 billion in annual sales in 2015 and a membership that includes about 10 percent of the organic farms in the country. George Siemon, the cooperative's CEO (widely known, inspired by the old children's song, as the CEIEIO) characterized it as "a social experiment disguised as a business" (Stevenson 2013). The cooperative is based in La Farge, in rural Wisconsin, and over 90 percent of its sales are dairy related. It was founded in 1988 with seven farm members, and grew over the years to have over 800 employees and 1,800 members in 34 states, Canada, Australia, and the United Kingdom. Initially, CROPP stood for Coulee Region Organic Produce Pool, reflecting the cooperative's regional character. As the cooperative became national, the name was changed to Cooperative Regions of Organic Producer Pools.

The cooperative was an ideological project from its beginnings, driven by the activism of farmers and the Back to the Land movement. Its roots are in the Driftless region of southwestern Wisconsin, which is unique both geographically and socially. During the last Ice Age, the glaciers that flattened much of the North American Midwest drifted around the area, leaving unscathed a landscape of hills, valleys, and rivers. The resulting regional conditions are favorable for agriculture, particularly dairy, but not to large-scale, industrial farming. In contrast with other parts of the Midwest, the region has maintained a relatively large number of functioning small family farms (Bowen and DeMaster 2014). At the same time, the Driftless also attracted during the 1980s many members of the counterculture and the Back to the Land movement, who were drawn to its natural beauty, affordable land, and proximity to the urban centers of Madison and Minneapolis. The "old time" farmers and the

newcomer back-to-the-landers were relatively distinct communities, but both maintained strong communal life and a culture of cooperation and entrepreneurship (Hundt 2004; Macgregor 2009).

The founders of Organic Valley Cooperative came from both these groups, and they brought to the table a unique combination of groundedness in the regional farming community with corporate business experience and familiarity with emerging countercultural urban markets. The core Management Team, which remained stable for much of its first 25 years, also included organic activists with experience in managing West Coast natural food co-ops. Among farmers, a third regional group within Organic Valley's membership was the Amish farmers, who shared the idealistic approach to farming and community orientation, and whose farming methods resembled organic practices. The impulse for the establishment of the cooperative came partly as a response to the 1980s farming crisis that spurred a lot of farm organizing in the region, and partly from the environmental movement. Initially, Organic Valley focused on vegetable production, but soon dairy became the cooperative's main driver of growth. The idea at the basis of the cooperative's strategy was to focus exclusively on organic production, and use the market premium for organic to ensure the livelihood of family farms. The focus of Organic Valley's mission and business strategy is maintenance of high and stable pay prices for its farmers, which would support organic production methods of high integrity.

Organic Valley started as a small, regional cooperative, and during its first few years it struggled for its survival. The number of farm members dropped from 57 in 1988 to 34 in 1992, climbing again to 510 a decade later. In 1994, the cooperative added its first dairy farms outside Wisconsin – in Minnesota and Iowa – and in the following year it first expanded its membership to the Pacific Northwest. In 1992, Organic Valley started

supplying milk to Natural Horizons — now called Horizon Organic — which is today Organic Valley’s largest competitor in the U.S. organic dairy market. This partnership helped the cooperative learn about marketing nationally, and it soon followed with its own line of Organic Valley branded fluid milk in Baltimore.

In the 1990s and 2000s, the organic market was growing quickly, and Organic Valley grew with it, expending both its membership and sales nationally. In 1998, the cooperative became the first to market ultra-pasteurized organic milk¹. This innovation was criticized by some in the organic and the health food movements, but it had a major contribution to Organic Valley’s ability to reach national markets, as it extended the shelf life of fluid milk from about 21 days to about 70. This innovation also helped create scale economies in the processing, marketing and distribution of organic dairy, and gave advantage to national brands that had relationships with national distributors and retailers. Like other sectors, organic dairy was consolidating, and over the years Organic Valley added to its membership farmers from other organic dairy marketers that went out of business. This was not only a way to increase the cooperative’s market share, but also served its mission, by keeping in business organic farmers who were losing their buyers, and by preventing them, out of desperation, from flooding the market with cheap organic milk.

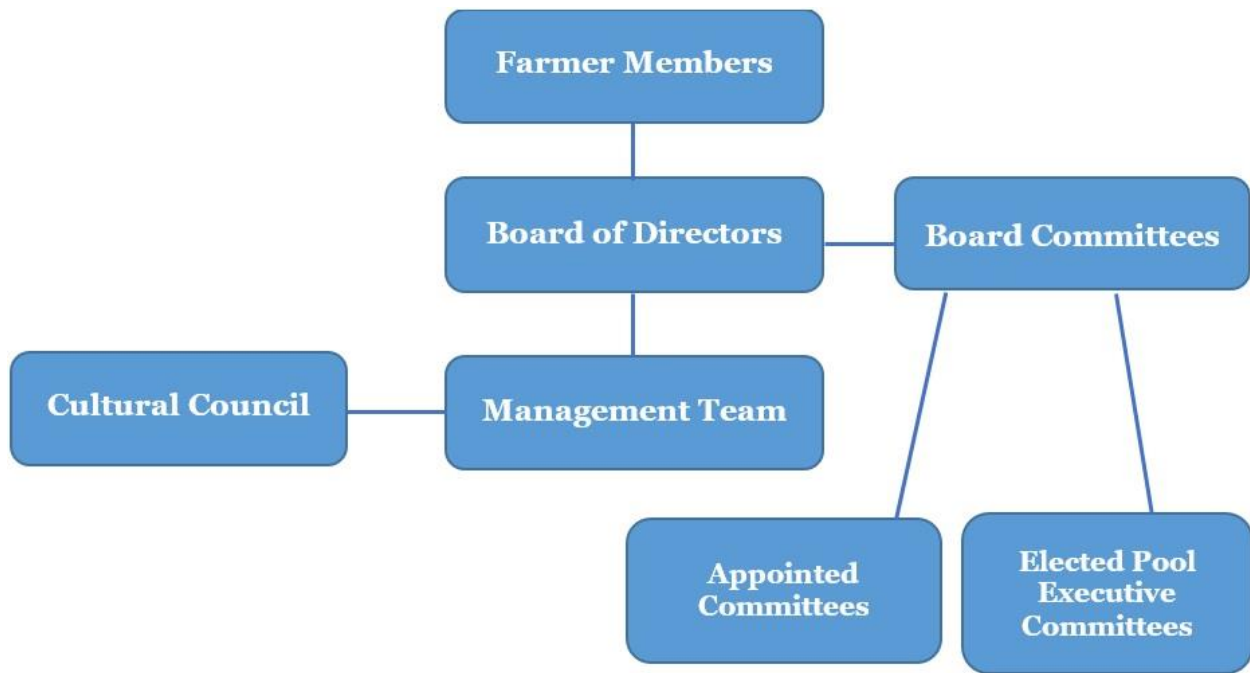
As the organic industry in the U.S. was consolidating through a series of mergers and acquisitions, Organic Valley faced multiple acquisition offers. In the late 1990s, as the cooperative was struggling with lack of capital, the management seriously considered an offer for acquisition by Horizon. After days of discussion, the board of directors decided

¹ Ultra-high temperature processing (UHT) sterilizes milk by heating it to above 275 °F for 1 to 2 seconds. The process affects the nutritional quality of the milk (e.g. Alkanhal 2001), which has been the source of objection among health food advocates (e.g. Sarah 2010).

against this option (CROPP 2013a). According to the CEO, George Siemon, maintaining Organic Valley’s independence and farmer ownership allows it to avoid pressures of maximizing shareholder value and remain “an honest vehicle to the community” (Interview 2014-03-17).

GOVERNANCE

Figure 5: Organic Valley's governance structure



Source: author’s analysis

All-Members Meetings

Annual meetings are typically held in early April every year near the headquarters in Wisconsin. All members are invited to the meeting, and the cooperative tries to cover travel expenses of members who live far from the headquarters at least for one annual meeting. There is also funding to cover travel expenses of members in leadership roles. At the annual meeting, members receive updates on the business of the cooperative, elect the board of

directors, and sometimes vote on other issues. Members are being notified in advance on candidates for directorship and decisions to be voted on, and they can mail in their vote if they cannot be present at the meeting. Each member has one vote, regardless of the volume of their business and equity. Members may request to put an item on the agenda of the annual meeting, which the board can accept or deny. An item may be put on the agenda despite a denial from the board with a written petition of at least 20% of the members. The 2016 annual meetings lasted three days and included multiple meetings and forums discussing various issues. The third day, with the plenary assembly, was broadcast online for members and employees who could not attend. The bylaws also allow for gathering special members meetings that can be called by the board president, a majority vote of the board, or upon a written petition of at least 20% of the members².

Board of Directors

Except for all-members meetings, the highest governing body of the cooperative is the board of directors. The board includes seven directors who must be active producing members. A regular term for a director is three years, and a director can serve multiple terms. The board is headed by the president, who is elected by the directors. Any member of the cooperative in good standing may announce candidacy to the board. A nomination committee, including directors, members, and supporting staff, screens board candidates and selects two for voting by the members. The nomination committee was introduced as an antidote to the tendency of elections to become “popularity polls instead of leadership selection” (Simeon 2015a). A candidate can bypass the approval of the nominations

² Based the CROPP’s Official Bylaws (CROPP 2015b). Information on travel expenses to annual meetings is from an interview with Gerry Cohn, Regional Pool Manager for the southeast region.

committee by presenting signatures expressing support by at least 15% of the membership. Directors receive no compensation, except for per diem and travel expenses. The board has a two-day meeting every month, and occasionally additional meetings³.

Board Committees

Committees Chaired by Board Members

The board appoints committees that oversee different domains in the operation of the cooperatives, with each of them chaired by a board member. Meetings of these committees typically take place during the board's monthly two-day meeting⁴.

The following board committees are mandated by the cooperative's bylaws⁵:

- A Finance Committee, with responsibilities such as budget review and financial planning. In 2013, this committee included the entire board, an external advisor, and three supporting staff members (CEO, CFO, and cooperative affairs executive assistant).
- A Cooperative Committee, governing matters such as bylaws changes and cooperative structure. In 2013, this committee included two directors, five appointed members, and four supporting staff members (vice president of cooperative affairs, dairy pool director, general counsel, and cooperative affairs executive assistant).
- A Personnel Committee, serving as a liaison between the board and the employees and governing issues including employee compensation. In 2013, this committee

³ The information is based on the bylaws (CROPP 2015b); the schedule of meetings is based on minutes from board meetings.

⁴ Committee scheduling information is based on an interview with Arnie Trussoni, President of the Board.

⁵ Based on the bylaws (CROPP 2015b) and a list of board committees in 2013.

included one board member, the director of HR, two representatives of the management team, and two representatives of the staff.

- A Marketing Committee, serving as a liaison between the board and the marketing department, focusing on long-term marketing strategies and other marketing related issues. In 2013, this committee included the entire board and the chief mission officer (who headed the marketing department until 2012).
- A Nomination Committee, overseeing the nomination process and candidate screening for board elections. In 2013, this committee included two board members, five members (including a member chair), and three supporting staff members (vice president of cooperative affairs and two cooperative affairs staff members)⁶.

The following committees were not mandated in the bylaws, but were chaired by a board member in 2013:

- An Audit Committee, in charge of the financial audit of the cooperative. The committee had similar membership to the finance committee, with minor changes in the supporting staff.
- Farm Advocacy Committee, guiding the use of the Farmers Advocating for Organic (FAFO) fund, which invests in projects related to organic agriculture in four categories: consumer education, farmer education, research, and farm succession planning. The fund received \$2.5 million between 2007 and 2014, and 80% of the members donated to it. In 2013, the committee included one board member, eight members, and three staff representatives.

⁶ An education committee is indicated by the bylaws, with the responsibility to foster educational activities. However, a list of board committees from 2013 and 2014 does not include this committee, and I found no reference to such committee except for the early days of the cooperative.

Pool Executive Committees

The cooperative is organized as farmer pools, by production sector (e.g. beef, eggs), and within the dairy sector also by region, with over 50 regional pools of roughly the same size. Each of these pools is governed by an executive committee through which farmers participate in determining policies about on-farm production and the relationship between the cooperative and its farmers. In 2013, there were five pool executive committees, for the Meat, Grower (grains and soy), Produce, Egg and Dairy Pools. Members of the executive committee meet typically once a month (often through conference calls) to discuss ongoing issues. Minutes of meetings are mailed to all the farms in the pool. While formally the executive committees hold an advisory role to the board, they are highly respected as the channel through which the farmers are represented⁷. In an interview, Arnie Trussoni, the president of the board, mentioned the committees as a main channel for the board to receive information from farmers that can guide their decisions.

The purpose of the Dairy Executive Committee is defined as: “CROPP Dairy Pool provides representation for each dairy farm, on an equal basis, to participate in the management of the cooperative and the marketing of all members’ organic dairy product.⁸” Each region elects a delegate and an alternate delegate for the committee, with each farm having one vote. In addition to serving on the committee, the delegate functions as a farmer organizer and a liaison between the cooperative and regional members: organizing regional meetings and activities, explaining dairy pool issues to local members, and working with Organic Valley’s administration. Delegates are reimbursed for their expenses and

⁷ Based on a list of board committees in 2013, interviews with Dan Mosgaller, Gerry Cohn.

⁸ “CROPP Dairy Pool: Dairy Executive Committee,” 10/2014.

compensated for time spent in meetings. In voting, each delegate usually casts a number of votes representing the number of farms in his or her region. However, member farmers may personally attend committee meetings and directly represent their farms. A regional dairy pool may also hold an official meeting and vote on an issue, in which case the delegate's vote would represent the exact majority and minority votes in the meeting. In any case, the committee is encouraged to take the time and seek consensus in its decisions⁹.

The following issues are defined as the responsibility of the Dairy Executive Committee: "1. Supply Management; 2. Dairy Pool Custodial Account Financial Management [capitalization as in source]; 3. Long-term Milk Contract and Negotiations; 4. Milk Pay Price Determinations; 5. Marketing Strategy Input to CROPP; 6. Equity Structure of Pool and member financial requirements; 7. Membership Representation in fairness and equality; 8. Quality Control Standards for milk and dairy products; 9. Organic, Cooperative, and Financial Education Programs; 10. Feed supply and procurement of other dairy inputs.¹⁰"

Other Member Committees Governing On-Farm Production

These committees include mostly members, and they govern different aspects of on-farm production¹¹. In 2013, such committees included:

- Feed Advisory Team
- On-Farm Sustainability

⁹ "CROPP Dairy Pool: Dairy Executive Committee," 10/2014.

¹⁰ "CROPP Dairy Pool: Dairy Executive Committee," 10/2014.

¹¹ I am not sure about the process through which members are assigned to committees. My guess is that they are appointed by the board and the executive committees.

- Supply Pricing Committee – including four members from the eastern U.S., four from the central U.S., and four from the western U.S. The distribution between zones is important because the committee discussed regional pay price premiums.
- Pasture Committee
- Animal Health Committee
- Work Improvement Plan Subcommittee of the Dairy Executive Committee – this subcommittee comprises members of the dairy executive committee and it works with dairy farmers whose milk falls short of the cooperative’s quality standards¹².

Fully Owned Subsidiaries

Board committees included in 2013 the boards of directors of two fully owned subsidiaries of CROPP: Organic Meat Company and Organic Logistics.

Management Team

The management team includes the CEO and executives in charge of Organic Valley’s main units: Finance; Operations; Brand Marketing; Sales; Pools/Farmer Affairs; the Dairy Pool (which is part of Pools); Mission, Messaging and Media Relations; Cooperative Affairs; and Information Technology. In 2015, the management team included 12 members, all of them employees. The management team oversees the employees who run the day-to-day business of the cooperative according to the mission statement and the directives of the board. As is evident from the above list of committees, members are deeply involved with price-setting and issues of on-farm production. By contrast, farmers’ involvement in other

¹² Based on a list of Board Committees in 2013.

issues is far less granular. In an interview, George Simeon talked about the limits of farmer' involvement:

They want to talk about pay price . . . And then you've got the things they are interested in. They're very interested in standards for their farm productions. So they're very involved in that. So it's a little . . . they want to be involved in about half the business and we have to run the whole business. So that's fine. You don't want them to be running the whole business, but you're not going to expect them to understand accounting or accruments, you know, the way our language or lingo very well.¹³

The Cultural Council

The *Cultural Council* was created as “an employee representative body, complementary to the Management Team and Board of Directors, whose purpose is to guide and develop our shared culture in harmony with the Mission Statement”¹⁴. The development of the Cultural Council was inspired by Mondragon’s Social Council, which represents workers in Mondragon’s cooperatives on issues concerning work conditions¹⁵. “We meet monthly,” says HR Director Mark Werre,

And there are employees who are representative of all different areas of the organization. We come together monthly to talk about what's going on in the business. We talk about other cultural topics . . . We focus a lot on the consensus and working through things together, which is very, very key to our culture¹⁶.

¹³ George Siemon, Interview, August 2014.

¹⁴ Cited from the Statement of Purpose of the council, based on a presentation in a Management Team meeting in November 8, 2004.

¹⁵ Ibid.

¹⁶ Mark Were, Interview, March 2014.

ECONOMIC STRUCTURE

Organic Valley as a New Generation Cooperative

Organic Valley's structural features are based on adaptations of the model of New Generation Cooperatives (NGCs), which emerged in the 1970s. The cooperative has adopted some of these elements, but adjusted them in a way that ensures an incentive structure that prioritizes the scaling of the cooperative's social and environmental impact over the maximization of shareholder value. NGCs help address the challenge for traditional cooperatives to raise capital. NGCs became popular in the 1980s and 1990s, with the creation of 200 such new co-ops, especially in the Upper Midwest, and they focus on marketing value-added products rather than commodities (Fairbairn 2004:47-8).

The structure of NGCs differs in three main ways from traditional agricultural cooperatives. First, membership in NGCs is not voluntary but restricted, and the cooperative can decide on whether and which new farms are being added. Second, in order to join the cooperative, members buy "delivery rights," which imply a mutual commitment for the sale of a given quantity from the member to the cooperative. The purchase of delivery rights is the members' equity investment, and it is proportional to the estimated patronage of the member. Equity investment is typically substantial, contributing to the financial strength of the cooperative. In traditional cooperatives, by contrast, equity investment is usually identical across members, independent of the volume of patronage, and relatively modest. Third, delivery rights can be traded among farmers, and their market value, like shares of investor owned companies, reflects the market value of the cooperative.

Organic Valley follows the first two principles of NGC, allowing it to enjoy a significant amount of investment from farmers — over \$39 million by the end of 2015 in

equity based on delivery rights (CROPP 2016). The specification of sale quantities in marketing contracts is also an important component of the cooperative's supply management program. The restriction of membership to the cooperative helps not only in limiting growth according to market conditions, but also in protecting the mission. New members are evaluated for organic integrity, cooperative attitude, and family farm focus.

The cooperative, however, departs from the NGC model in that it does not allow the trade of delivery rights between farmers. The ability to trade delivery rights (or other types of cooperative ownership shares) in market value, creates an incentive for the members to maximize shareholder value. Organic Valley is structured in an unusual way that does not allow members to benefit from an increase in the value of the cooperative. This is explicitly done in order to address the risk of mission drift, which has been in other cases the result of cooperatives' market success.

A well-documented case in point is Olympia Veneer Company, which in 1921 pioneered a regional cluster of successful plywood worker cooperatives in the Pacific Northwest. The original members contributed \$1000 in equity, worked in the first year almost without pay, and practiced democratic workplace self-governance. The company became extremely successful, and the value of shares increased quickly, making it difficult for new workers to buy stocks and join the cooperative as members. The cooperative became increasingly dependent on non-member workers, who did not participate in its governance. In 1954, the company sold out to private investors for \$15 million, representing \$120,000 for each of the original 125 shares (Berman 1982).

By contrast, Organic Valley does not allow its delivery rights to be traded at market value, and has equity rules that do not allow members to profit from increase in the value of the company. George Siemon, Organic Valley's CEO, mentioned the cooperative's lack of

need to maximize return on equity as a source of freedom from past promises that allows it to focus on the demands of the present. Mike Bedessem, the CFO, further elaborates on the choice of cooperative structure:

We took our cooperative and said “it's about future farmers,” okay? And we really made it so that there was no real benefit of being an early owner of the cooperative . . . The farmers — again, lack of greed — said: “okay, the 1500th farmer has the same investment requirements as the first farmer.” And it would be very fair to say that the first farmer sacrificed along the way because the first farmers were paid \$14 [per 100 lbs.], farmers coming on now are paid 31 dollars. The first farmers suffered . . . reductions in pay . . . Their delivery rights have gone up tremendously in value on the successful ones so our delivery rights in theory should have gone up tremendously in value, the farmers said “no, we don't want to do that because it's about the next generation of farmers¹⁷.”

Equity

Members' Mandatory Equity

Organic Valley has equity from both members and non-members. Class A and Class B stocks are limited to members only. Each member is required to purchase one Class A stock, with a value of \$25. Class A stock grants a member one vote, and it cannot be transferred to others. Class B stock is purchased by members in order to meet the cooperative's capital base requirement. The capital base is the equity that members are required to invest, at the amount of 5.5% of their annual gross income from the products marketed through the cooperative. Holders of Class B stock receive a dividend of 8% per year. Each pool establishes procedures through which the capital base requirement is satisfied. In the dairy pool, the capital base reflects the value of the annual quantity of delivered milk that is assigned to the member. As this assigned quantity changes with time

¹⁷ Mike Bedessem, CFO, Interview, August 2014.

(see the section Supply Management in Chapter 6), the capital base requirement is adjusted accordingly, and members may be required to buy more stock or allowed to redeem some of their equity. New members can pay their capital base upon their first shipment of milk, or pay it over time through deductions from the milk payments. If members terminate their membership, they can redeem their equity (with approval of the board). Transfer of delivery rights is subject to approval of the board, and is generally allowed only within families¹⁸.

In sum, members' equity does not reflect in any way the duration of membership or the cooperative's valuation. Instead, mandatory equity is always determined the member's current volume of business with the cooperative. These arrangements do eliminate incentives for shareholder value maximization (except in the case of demutualization and sale of the cooperative), and facilitate expansion and the addition of new members.

Equity from Social Investors

In addition to members' mandatory equity, Organic Valley mobilized capital from social investors who supported its mission. Such equity is provided through non-voting, preferred stock that can be purchased either by members or non-members. Over the years there have been various classes and series of such stock with various annual dividend rates, but as of January 2016, all such stock was Class E stock with an annual dividend of 6%. In case of dissolution or liquidation of the cooperative, debts would be paid first, then liabilities to holders of Class E preferred stock, and then liabilities for members' mandatory equity. The table below shows Organic Valley's equity structure at the end of 2012 and 2015.

¹⁸ CROPP (2013b, 2015b, 2016).

We can see how the financial success of 2015 allowed the cooperative to increase its capital reserves and change its equity structure¹⁹.

Table 1: Equity structure

Equity Type	Amount 2012	Percentage 2012	Amount 2015	Percentage 2015
Members' Mandatory Equity ^a	\$35,750,222	30.0%	\$39,204,235	22.6%
Preferred Stock (from Members and Non-Members) ^b	\$52,642,925	44.2%	\$67,543,144	38.9%
Unallocated Capital Reserves ^c	\$30,712,497	25.8%	\$66,912,308	38.5%
Total	\$119,105,644	100.0%	\$173,659,687	100%

Source: CROPP (2013b, 2016).

^a Including Class A stock, Class B stock and Pool equities.

^b Including Class C and Class E stock.

^{ci} Including unallocated capital reserve and non-controlling interest in subsidiaries.

Offering equity to non-members enabled the cooperative to overcome the capital challenges that are faced by cooperatives and mission-driven businesses. Raising capital is known to be challenging for cooperatives for several reasons (Harris, Stefanson, and Fulton 1996). First, the incentive structure of cooperatives does not typically encourage members to invest more than the required minimum, since profits are distributed in proportion to patronage (that is, in Organic Valley's case, the delivered produce) and not to investment. Second, there is *the horizon problem*, which refers to members' disincentive to invest in long term projects that are expected to yield profits only after the end of term of their patronage. Third, cooperatives face difficulties raising startup capital, because members have little incentive to co-sign on loans:

¹⁹ CROPP (2013a, 2013b, 2016).

Being a cooperative can be a difficult particularly in the beginning . . . because nobody co-signs. I mean one of the things in a small business that all banks look for is co-signs. And they're really not looking for the co-signing because they think that the entrepreneur has so many assets . . . they're really looking for the co-sign because . . . when you put your house up, okay, well, then they know they've got your attention about being serious with your business. And for a long time co-ops have had poor reputation in the banking community because nobody co-signed and so, if there's a problem, everybody's backing away if you will and the bank is like: "well, who's in charge here now?"²⁰

In addition, being a social enterprise involves its own set of financial difficulties. As noted in Chapter 1, hybrid organizations tend to face a legitimacy challenge because they span established categories and therefore tend to be discounted by external evaluators (Hsu, Kocak, and Hannan 2009; Battilana and Lee 2014). Particularly, investors and lenders can be reluctant to finance mission-driven businesses due to the concern that their mission focus would impede their financial performance. Lee (2014) found that nascent charity/business hybrids were less successful in securing external financing than pure charities that did not incorporate aspects of the business form.

From its early years, Organic Valley leveraged its mission to overcome such financing challenges. In 1988, the year of its formation, the cooperative turned to its members and the local community for startup financing, offering preferred non-voting stocks in the company. The stock offering letter from 1988 focused on the cooperative's mission and broad impact rather than the financial return on investment:

CROPP is a true grassroots movement in response to the needs of both the farmer and the consumer in the quickly developing organic market. We're not promising a pot of gold, but we are determined to do something about the seemingly hopeless problem of the deteriorating farm culture and economy. With the present depressed farm pricing, it is very hard for us to be self-financing. We have selected to sell preferred stock to purchase equipment, pay salaries and pay overhead costs. We are asking CROPP growers, neighbors, businesses, churches, other cooperatives and all concerned people

²⁰ Mike Bedessem, CFO, Interview, August 2014.

to buy preferred stock to help us as a sign of community support. It is CROPP's intent to buy back these preferred stocks in future years. We feel CROPP has great potential and will be a welcomed boost to our economy in years to come²¹.

Organic Valley kept relying on social investors throughout its growth. Starting in 2004, when expansion into the national mass market required large investments, the cooperative issued more preferred stocks, with an annual dividend of 6%, and managed to raise until 2010 over \$40 million from more than 2,000 social investors. This time, investors were mostly consumers, who were recruited nationally through mobilization structures of the organic food movement, including food cooperative newsletters, publications of organic certifiers, and guides for local food investors and philanthropists. The responses were beyond expectations, and many customers/investors were so enthusiastic that they volunteered to promote the cooperative in their communities. By September 2010, Organic Valley exceeded its target for that year after raising \$14 million, and closed the stock for additional purchases.

Mike Bedessem, Organic Valley's CFO, believes that the source of the cooperative's financial strength is its mission and culture that are based on lack of greed:

And so culture, lack of greed, now how has this helped us financially? . . . Because we had an authentic mission, other people wanted to invest in that mission. That really helped us financially and we sold 50 million dollars' worth of preferred shares and it became almost half our equity. And so what that did is it doubled our equity and all of a sudden it changed the way we look at banks. And so now banks are saying: "gee, you guys have got a lot of equity!" . . . Banks and processors who want to deal with us, they look at our balance sheet and say, they say "that's a strong . . . very strong balance sheet .

²¹ Quoted from CROPP, 2013a:62.

. . they're going to pay their bills, we want to do business with those people!"²².

Distribution of Profits

Organic Valley's profits are distributed as follows:

1. The board of directors decides on the amount of net income that would be retained in unallocated capital reserves, that is, equity that is not allocated to individual members.
2. Dividends are distributed to stock holders.
3. If the cooperative exceeds a certain profit threshold, as determined by the board, some of the profits are shared between employees, farmers, and community organizations.
4. Any remaining profits, if any, are distributed to the accounts of the pools.

²² Mike Bedessem, CFO, Interview, August 2014. The figures the Mike Bedessem notes are different from those in the table above because the interview was held in 2014, and the table is based on the financial statements from 2016, in which more preferred stock had been sold and capital reserves were much higher.

Other Economic Information

Employees and Farmers

According to the 2015 Annual Report, Organic Valley had 875 employees, and in an organizational chart from July 2014, 749 employees were listed with the following distribution:

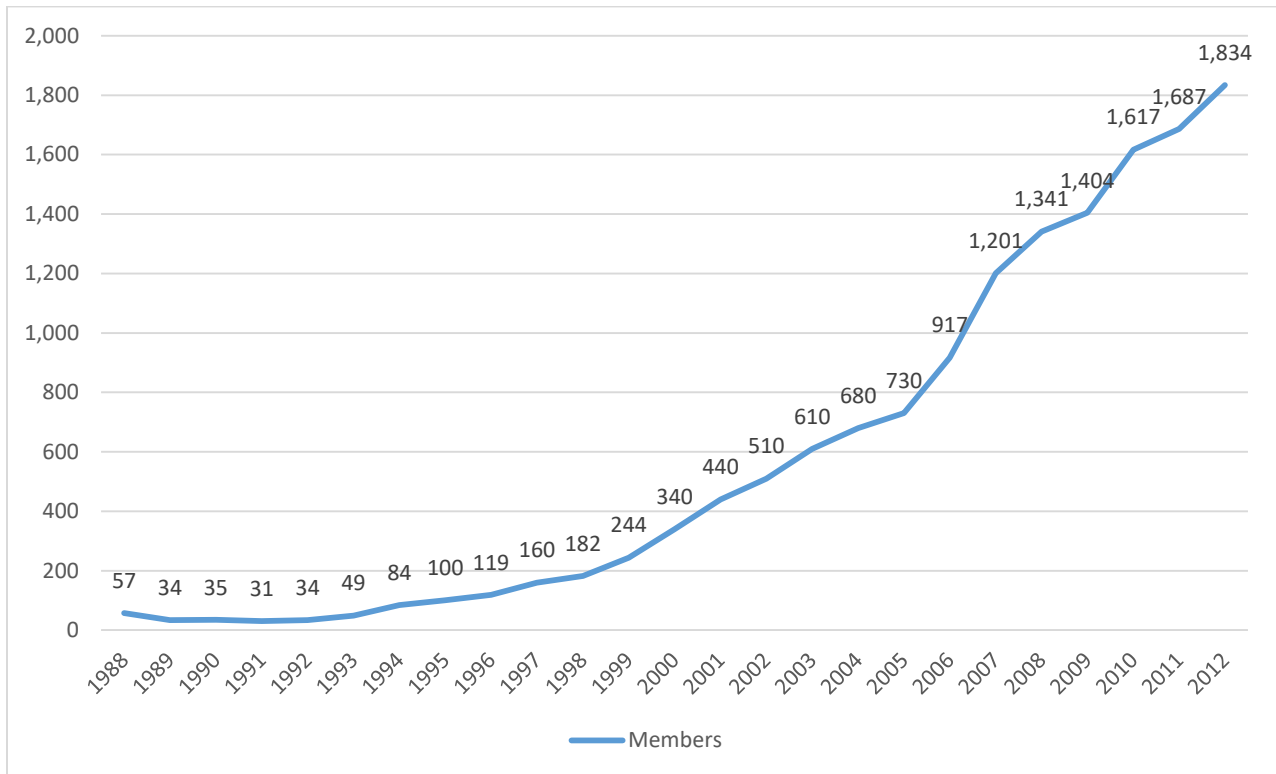
Table 2: Employee distribution

Employee Category	Number	Percentage
Pools	90	12.0%
Operations - Total	250	33.4%
<i>Operations – manual work (drivers, technicians, workers in the plant and distribution center)</i>	136	18.2%
Finance	81	10.8%
Information Technology (in 2014 IT was under the CFO)	64	8.5%
Sales	97	13.0%
Marketing	67	8.9%
Cooperative Affairs - Total	94	12.6%
<i>Cooperative affairs – manual work (e.g. maintenance, facilities, retail)</i>	49	6.5%
Organic Meat Company (fully owned subsidiary)	6	0.8%
Total	749	100%
Total Blue Collar	185	24.7%

Source: Author's analysis of an organizational chart from July 2014

The following chart shows the number of members over time:

Figure 6: Number of members over time



Source: CROPP (2013), CROPP 2012 Annual Report.

Expense and Revenue Structure

Below is a summary of Organic Valley's expenses in 2015 comparing to those of WhiteWave Foods, owner of Horizon Organics, the cooperative's main competitor in the U.S. organic dairy industry. The data is based on the financial statements of both firms. Organic Valley's cost of sales, which include payments to farmers, is much larger than

WhiteWave's – 83.0% vs. 65.8%. By contrast, expenses on marketing and operating income are much lower – 4.6% vs. 18.3%, and 4.1% vs. 8.6%, respectively.

Table 3: Organic Valley vs. WhiteWave expenses

Expense Category	Organic Valley – Amount	Organic Valley - Percentage	WhiteWave Foods - Amount	WhiteWave Foods - Percentage
Net Sales	\$1,042.0	100%	\$3,866.3	100%
Cost of Sales	\$865.2	83.0%	\$2,543.0	65.8%
Marketing^a	\$47.7	4.6%	\$705.9	18.3%
Advertising	\$3.2	0.3%	\$216.7	5.6%
General and Administrative^b	\$60.7	5.8%	\$285.2	7.4%
Operating Income	\$42.6	4.1%	\$332.2	8.6%
Net Income	\$36.8	3.5%	\$168.4	4.4%

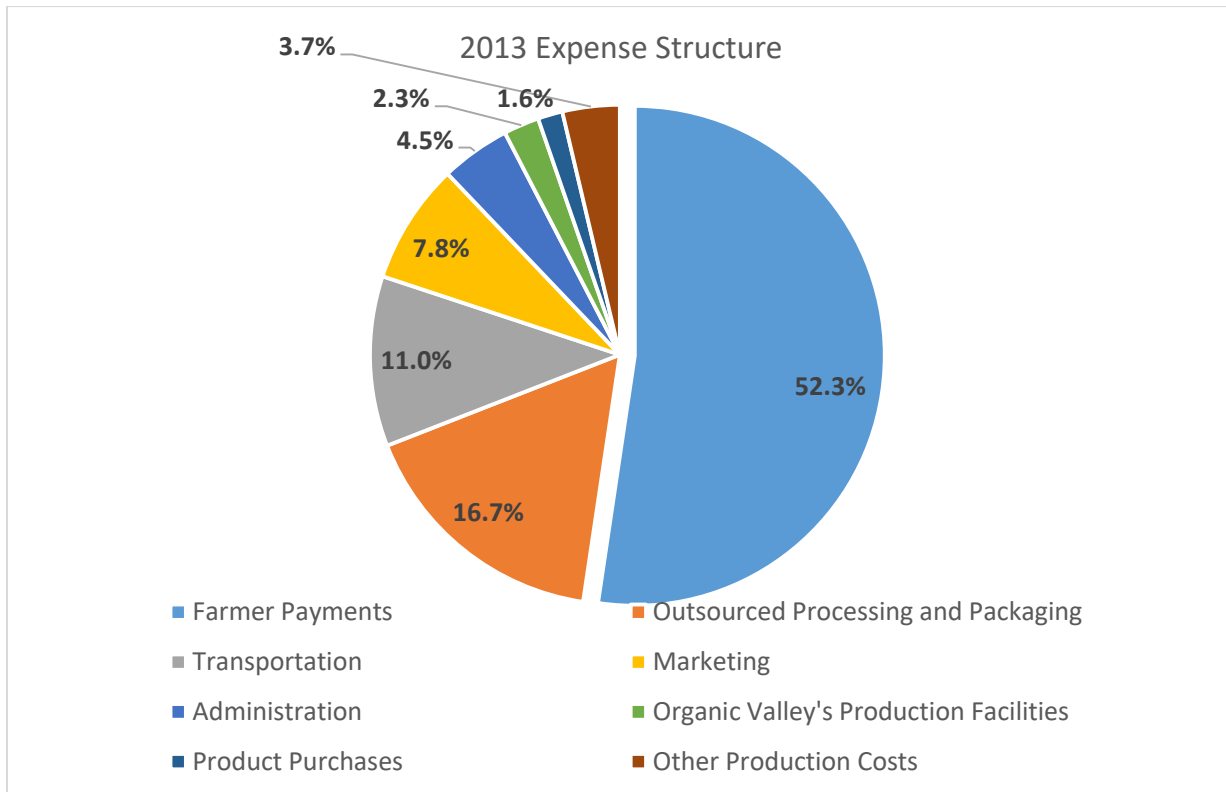
Source: CROPP (2016), WhiteWave (2016).

^a Marketing expenses in 2015 were particularly low, because there was a shortage of supply. In 2014, Organic Valley spent 6.1% of its net sales on marketing, and WhiteWave spent 19.6%.

^b For Organic Valley, this category includes the sum of general and administrative expenses, and other expenses.

The following chart presents a more detailed breakdown of Organic Valley's expense structure in 2013, showing that over half the expenses are on farmer payments:

Figure 7: 2013 expense structure

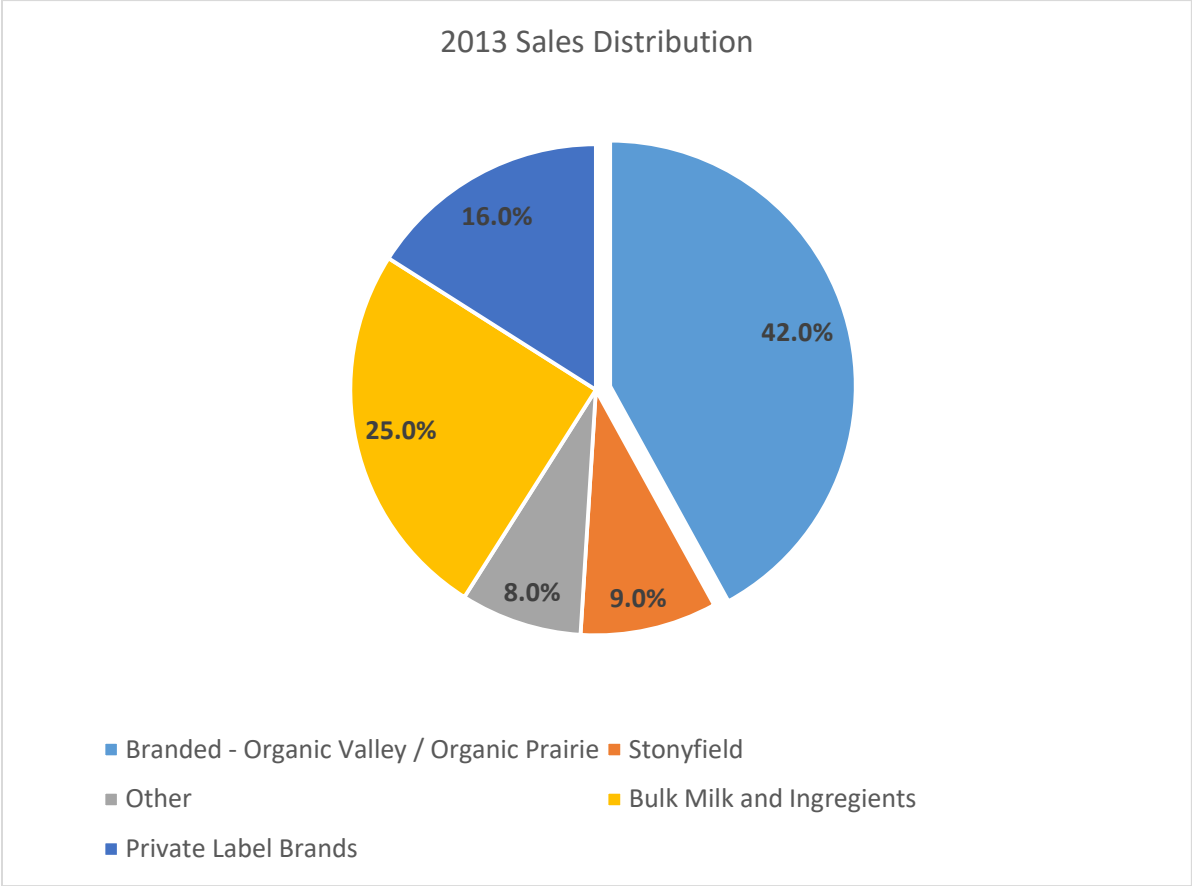


Source: A presentation to the Board of Directors from April 2014.

The chart below presents Organic Valley's sales distribution in 2013 between different marketing channels. This distribution reflects the strategic goal of at least half the sales in branded products. Branded sales include Organic Valley (dairy, eggs, soy milk and

vegetables), Organic Prairie (meat) and Stonyfield (dairy sold in the Northeast under the Stonyfield brand).

Figure 8: Sales distribution



Source: A presentation to the board of directors from April 2014. Branded sales include Organic Valley brand (dairy, eggs, produce), Organic Prairie (meat) and Stonyfield (dairy sold in the Northeast under the Stonyfield brand).

Chapter 3: Theoretical Framework

Studies of social movements' efforts to drive entrepreneurial projects that embody their values tend to focus either on the micro level of the organization or the macro level of the industry. Yet, many processes that organize contemporary economic activity can be better understood by analyzing meso-level structures. Davis and McAdam (2000) observe that a key characteristic in the "new economy" is the replacement of stable organizations "by fluid 'networks' as forms of governance" (p.195). These "Changes in the social organization of production," suggest Davis and McAdam, "have profound implications for theory about organizations, understood as boundary-maintaining systems. Network production systems no longer map onto discrete, bounded entities such as organizations, and social structures of production increasingly elude description using the traditional theoretical vocabulary of organizational sociology" (p.200).

Davis and McAdam's observations are highly pertinent for the agri-food industry, and to the case of Organic Valley in particular. Like most contemporary markets for consumer goods, mass-market food sectors are controlled by relatively few firms, which govern large networks of multiple organizations participating in different stages of production and distribution. In our case, the network of organizations participating in the production and distribution of Organic Valley's dairy products include near 1,500 dairy farms, 100 dairy processing plants, retailers, distributors, brokers (who help manage Organic Valley's relationships with retailers), freight companies, milk haulers, and milk handlers. As an agent of civil society in the market, the cooperative is a key node between this commercial network of agri-food firms and multiple fields of social organizing,

embodied in the tradition of agricultural cooperatives and the organic and environmental movements.

To understand how economic activity is governed and coordinated across such large agri-food networks, I suggest, it is useful to focus on three interrelated units on analysis: the *value chain*, the *lead firm*, and the *transaction*. The value chain is the unit of analysis that captures the entire network of organizations that are involved in the production and distribution of Organic Valley's dairy products. A value chain is understood here as the sequence of value-adding activities that a product goes through from conception to consumption, whether or not these activities take place within a single firm¹. In the analysis of Organic Valley's dairy value chain, I employ concepts and methodological tools from Global Value Chain (GVC) analysis.

While large agri-food value chains typically include multiple organizations, power and influence over them are concentrated with few companies, which GVC analysis calls *lead firms*. Lead firms are in a position to *govern* value chains — determining the division of labor, the conditions of participation, and the distribution of value in them. In order to understand an agri-food value chain we need to study the lead firm in that chain and its relationships to other value chain participants. In our case, Organic Valley is the lead firm of its dairy value chain and uses this position to apply governance that is rooted in civil society over economic activity that spans a network of nearly 2,000 organizations. The crucial role of the lead firm brings us back to the organization as a unit of analysis, but not so much as a bounded, autonomous entity, rather as an open entity that is defined through relationships.

¹ A supply chain perspective, by contrast, views all the activities that are performed by one firm as a single step in the chain.

Lead firms in large, contemporary value chains often hold on to “core competencies,” such as product design and brand marketing. However, even such “core” organizational functions are not bounded and autonomous, but defined through interaction with consumers, customers, competitors, social movements, and other social agents.

In order to capture both the determination of economic activities and the functioning of the mission in Organic Valley’s relationship with other value chain participants, I conceptualize the transaction as having a twofold nature: First, a transaction is a transfer of a good or service across a technologically separable interface (Williamson 1985). Second, transactions are part of meaningful social relations (Zelizer 2012). Granovetter (1985), and others who studied the social embeddedness of economic action, stressed the importance of *structures* in governing transactions. My study joins a more recent movement by Zelizer and other economic sociologists, and highlights the importance of meanings, analyzing how Organic Valley’s civil society identity imbues economic relationships with political and moral meanings. These meanings can enhance or decrease the valuation of the cooperative by key audiences and therefore affect the terms of Organic Valley’s transactions with key stakeholders.

THE VALUE CHAIN

Studies of the ability of organics to serve as a viable alternative to conventional agri-food have typically focused either on the micro-level, with the farm as the primary unit of analysis (e.g. Constance et al. 2008, Hall & Mogyorody 2001, Lockie & Halpin 2005, Guptill 2009) or the macro-level, analyzing large-scale economic sectors. Notable examples of units of analysis in the latter approach include the U.S. national organic market (Jaffee & Howard 2010, Dupuis and Gillon 2008), northern California’s organic vegetables sector (Buck et al.

1997, Guthman 2004a), and the North American organic food processing sector (Howard 2009). Such studies generated valuable insights, but some of these insights pointed to the meso-level of the value chain as the locus where many characteristics of organic production are determined.

In a recent update of her 2004 landmark book, *Agrarian Dreams*, July Guthman recently restated the bifurcation thesis as primarily a distinction in terms of marketing channels, as opposed to farm scale or farmers' values. In California's organic vegetable sector, the "vast majority of produce that goes through the large grower-shippers and processors reaches a national market and ends up in major supermarkets (including Whole Foods), while that distributed with more independent marketing arrangements tends to end up in local and regional markets—both direct markets (CSAs, farmers' markets, and restaurants) and regional chains and independent grocery stores" (Guthman 2014:196). Those who grow for the mass market face more conventionalization pressures, while others who cater to local markets enjoy a higher market premium that allows them to engage in more artisanal methods. The case of Organic Valley demonstrates that governance at the meso-level of the value chain has an important role in mediating such mass market conventionalization pressures, and my dissertation analyzes the processes through which such mediation happens².

Global Value Chain (GVC) analysis provides important tool for studying agri-food value chains. While Organic Valley's dairy value chain is mostly national rather than global,

² It is important to distinguish my approach from studies of commodity chains in the *commodity systems analysis* approach (e.g. Friedland 1984, Buck et al. 1997). Such studies, as well as some studies that use the term *value chain*, analyze economic sectors in their entirety. By contrast, I consider value chain as delimited both by its economic sector and the lead firm that governs it.

GVC's concepts and methodological tools help analyze Organic Valley's ability to develop and govern a mission-driven value chain that includes (in 2015) nearly 2,000 organizations. GVC analysis has become popular in the last couple of decades, as production in many industries vertically disintegrated, with different production stages performed by different firms and distributed across countries³. GVC analysis aims to capture such distributed activities and the relations between them, drawing its roots from the world systems tradition (Hopkins and Wallerstein 1977), the Global Commodity Chain framework (Gereffi 1994) and transaction cost economics (see Bair 2009 for an extended genealogy). Methodologically, this approach highlights the analysis of: the steps in the value chain and the links between those steps; the spatial configuration of the chain; the governance structures of the chain as a whole and of each link in particular; and the distribution of power and value across the chain.

Analyzing value chains is particularly important for understanding the contemporary agri-food economy, because each mass market sector in it is typically organized as a small number of value chains that are governed by powerful, large firms. This mode of economic organization is the result of a fundamental restructuring of the agri-food economy in the last few decades, characterized by globalization and market concentration at the processing, marketing, and retail levels. In the U.S., the market share of the largest four grocery retailers (CR4) rose from 16.8% in 1992 to 36.4% in 2013⁴. Nontraditional retailers, such as supercenters and warehouse club stores, highly increased the market share, with Wal-Mart becoming the leading food retailer in the U.S. On a regional scale (which is the consumers'

³ These processes were aptly termed the "integration of trade and disintegration of production in the global economy" (Feenstra 1998).

⁴ USDA, ERS. Retrieved from <http://www.ers.usda.gov/media/363036/topgrocerysales.xls> on 2014/12/26.

viewpoint), markets are even more concentrated. A study of grocery retail concentration in 229 metropolitan regions found that the average CR4 in those regions was 79.4%⁵. This growing market concentration helped drive concentration at other levels of the value chain, and in most agricultural sectors in the U.S., market concentration has significantly gone up in recent decades. In beef, the market share of the largest four processing firms rose between 1982 and 2006 from 41% to 79%; in pork, from 36% to 63%; and in poultry, from 27% to 57%. In fluid milk, this figure rose from 16% in 1982 to 43% in 2002 (U.S. Government Accountability Office 2009). In some grocery product categories, such as baby formula, diet carbonated soft drinks, and microwaveable packaged dinners, market share for the top four firms exceeds 90% (Food & Water Watch 2013). Under such market conditions, large retailers and food marketers exercise immense power to organize the agri-food economy.

To analyze the role of such large marketers and retailers in the agri-food economy, the GVC approach offers the concept of *lead firms* and emphasizes their power to govern value chains — determining the division of labor, the conditions of participation, and the distribution of value in them. Gereffi (1994:97) defined governance of a value chain as “authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain.” Gereffi (1994) introduced an important distinction between *producer-driven* and *buyer-driven* chains, depending on the location in the chain of the lead firm. Lead firms in producer-driver value chains, like the car manufacturers of the Fordist economy, typically rely on vertical integration to govern their

⁵ Sexton, Richard J. "Market Power, Misconceptions, and Modern Agricultural Markets." *American Journal of Agricultural Economics* 95.2 (2013): 209-219.

value chains. Lead firms in buyer-driven value chains, such as Wal-Mart or Nike, have limited or no production capabilities, yet they control the operation of chains by requiring suppliers to meet certain standards. In agri-food, value chains are typically buyer-driven, and are dominated by a few “lead firms” on the buyer end that hold the majority of the market share and govern their value chains using a variety of methods, especially through standards (Busch & Bain 2004, Ponte & Gibbon 2005, Gereffi et al. 2009).

As we shall see, Organic Valley is an intriguing exception to this pattern as a producer-controlled lead firm that established a market leading value chain. While some of the tools of GVC analysis are useful to analyze this accomplishment, GVC provides little that can help us understand how the political/moral meanings of Organic Valley’s mission function in value chain relationships. The next sections seek to address this problem.

THE LEAD FIRM

This section clarifies the claim that Organic Valley is an agent of civil society in the market, and offers a theoretical framework that allows me to analyze how the cooperative governs the value chain according to its mission. The section begins with a general discussion of the relationship between civil society and the market economy, and moves on to reflect on Organic Valley’s status as a hybrid organization that combines elements from both sectors. The section then proceeds to develop a relational view of the firm that can capture the ways Organic Valley is connected with its value chain partners. This relational view allows me to examine how Organic Valley, as a civil society organization, is able to apply through these relationships its governance over a network of organizations that is much larger than itself.

Civil Society and the Market Economy

Civil society has been conceived in Western thought as a sphere which “exists over against the state, in partial independence from it,” (Taylor 1990:95) providing space for the debate and therefore a condition for securing a free society. Academic discussions of conceptions of civil society have centered on the relationship between civil society and the state, but also have spoken, at least by implication, to the relationship between civil society and the market. In some views, society is practically equated with the market economy. Charles Taylor identifies a liberal stream of thought that has developed a notion of “society as an extra-political reality. One facet of this elaboration has dominated the discussion of the nature of ‘civil society’ until quite recently. That is the development of a picture of society as an ‘economy,’ that is, as a whole of interrelated acts of production, exchange and consumption which has its own internal dynamic, its own autonomous laws” (Taylor 1990:107). These autonomous laws are those of the self-regulating market, through which, in this view, society realizes its autonomy and freedom. By contrast, another stream of thought, represented by Leninism and extreme forms of nationalism, sought to justify totalitarian political power as the expression of a pre-political, general will. Such a view is suspicious of the benevolence of the self-regulating market, and seeks to subject it to the state, which is here equated with civil society.

Both formulations of the concept of civil society forfeit the notion of a civil society as distinct from both the state and the market, and therefore deprive civil society of its ability to be an autonomous force that can democratize participation in the shaping of social life. While the latter view, supporting totalitarianism, has been largely discredited at this point in history, there is still a strong following to the idea that the self-regulating market is the

proper medium for the expression of social will and attainment of freedom⁶. As Cohen and Arato put it, in the context of formerly communist countries transitioning to democracy:

as we know from the history of the West, the spontaneous forces of the capitalist market economy can represent as great a danger to social solidarity, social justice and even autonomy as the administrative power of the modern state. Our point is that only a concept of civil society that is properly differentiated from the economy (and therefore from “bourgeois society”) can become the center of a political and social theory in societies where the market economy has already developed, or is in the process of developing, its own autonomous logic. Otherwise, after successful transitions from dictatorship to democracy, the undifferentiated version of the concept embedded in the slogan “society vs. the state” would lose its critical potential. Thus, only a reconstruction involving a three-part model distinguishing civil society from both state and economy has a chance to underwrite both the dramatic oppositional role of this concept under authoritarian regimes and to renew its critical potential under liberal democracies (Cohen and Arato 1994: iix-ix).

A concept of civil society as properly differentiated from the market economy is needed for the elaboration of the relationship between civil society and the economy as two distinct entities. I am adopting Cohen and Arato’s understanding of “civil society” “as a sphere of social interaction between economy and state, composed above all of the intimate sphere (especially the family), the sphere of associations (especially voluntary associations), social movements, and forms of public communication” (Cohen and Arato 1994: iix-ix). For the purposes of this dissertation, such a concept would allow me to analyze, through the case of Organic Valley, the ways civil society can function as an autonomous force that represents society in countering the erosive tendencies of the market economy.

Civil society and the market are not mutually exclusive or antagonistic (Cohen 1995). In fact, de Bakker et al. (2013) argue that the boundaries between these empirical domains

⁶ For instance, Scott Walker, in his 2016-07-20 speech in the U.S. Republican Convention, announced: “We believe in a country where freedom and personal success do not come from the clumsy hands of government rather [sic] from the dignity that comes from hard work” (Drabold 2016).

have been blurring recently⁷. As corporations grow, globalize, and become involved in the determination of multiple aspects of social life, they can be seen as “polities” that are subject to internal struggles (Davis and Zald 2005). Corporations also function as political actors that engage in grassroots mobilizing in support of pro-business positions (Walker 2009) and in civic public deliberation as a way to reduce resistance to their actions (Lee and Romano 2013). At the same time, corporations increasingly become the target of mobilization by social movements and NGOs. Such civil society organizations can exert influence on the market from the outside through various methods: by influencing the policy and regulatory environment of the industry (e.g. Schneiberg and Bartley 2008); through pressure campaigns against target firms (e.g. Ingram, Yue, and Rao 2010); through cooperation with companies to create voluntary company policies (e.g. Yaziji and Doh 2009); or by changing standards of legitimacy and product evaluation criteria (e.g. Maguire and Hardy 2009). My dissertation suggests that civil society can also shape the market from within, through hybrid organizations that are situated within both sectors.

Cooperatives as Agents of Civil Society in the Market

For “civil society” to be a meaningful concept, it has to be understood as having its own autonomous logic, which is distinct from that of the market and the state. Cooperatives, at least in potential, have characteristics that can support such an autonomous logic, since they combine elements of business enterprises with those of associations and social movement organizations (both of which are included in civil society). Cohen and Arato suggest that “in the long term both independent action and institutionalization are

⁷ De Bakker et al. have a different concept of “civil society” than mine, but their observations remain valid when considered from my viewpoint.

necessary for the reproduction of civil society” (1994:ix). This section explores the conditions under which cooperatives can institutionalize an autonomous civil society logic that would support independent action. To the extent that they can introduce into the market goals and logics that are rooted in civil society, cooperatives democratize the market and allow for a more equitable distribution of power in it.

Organizations that are situated in spaces of institutional overlap, combining commercial and social goals, are often theorized as hybrids (see the section “Social Enterprise Hybrids” in the Introduction). The concept of organizational hybridity generally refers to organizations that combine disparate elements. Cooperatives have been theorized as having such a dual nature. Mooney and Gray (2002:10), in their effort to develop a sociological theory of cooperatives, quote from George Fauquet (1937): “A cooperative consists of two essential elements, a democratic association of persons and an economic enterprise. In separating these for the purposes of analysis the essential is lost [sic]. It is the manner in which the two are coordinated that forms the basic problem of cooperatives.” Fairbairn (2004:24) also observes that such a duality is embedded “in more than a century of European and international cooperative thought. Co-ops are both associations and business enterprises. They must be understood in both lights, and they must succeed in both dimensions to thrive.”

However, being an association does not guarantee that cooperatives are driven by a logic that is autonomous from the market. Associations can form around a variety of goals and values, including the pursuit of profit. In fact, Hansmann (1996:15), argues that the typical business corporation can be usefully theorized as “just a particular type of cooperative. A cooperative is a firm in which ownership is assigned to a group of the firm’s patrons, and the persons who lend capital to a firm are just one among various classes of

patrons with whom the firm deals.⁸ Yet, historically, many cooperatives were formed by members of groups that felt their needs were not served well by existing economic arrangements, and sought to change those arrangements by creating business enterprises that will be under their democratic control.

I suggest that there are two conditions for a cooperative to maintain an autonomous civil society logic that allows it to be a meaningful agent of civil society in the market. First, the cooperative's collective identity has to be centered on different values and goals than those that prevail in the market. Such a collective identity has to be centered on goals that challenge and contest established social institutions, such as the market economy, and can be formed and sustained through association with social movements. Fairbairn stresses the need to conceptualize cooperatives more rigorously in relation to wider social movements, with an emphasis on their embeddedness in networks of various groups, interests and ideas (2001:27). As the historical survey in the following chapter shows, cooperatives have been typically formed as part of the struggles of social movements to change the socioeconomic order. To the extent that members of the cooperative collectively identify with a social movement and pursue its goals, we can say that a cooperative has elements of a social movement organization (SMO)⁹.

Another condition for a cooperative's ability to be an agent of civil society in the market is the presence of governance processes that empower and meaningfully involve

⁸ In general, economic theories of cooperatives tend to do away with their social and political dimensions. They understand cooperatives as profit seeking firms that are distinguished by a particular ownership structure, and assume that cooperatives prevail under conditions in which they are more efficient than firms with other ownership structures.

⁹ McCarthy and Zald (1977:1218) define SMO as an organization "which identifies its goals with the preferences of a social movement or a countermovement and attempts to implement those goals."

otherwise marginalized stakeholders in the determination of economic life. Governance arrangements in cooperatives have two characteristics that help them meet this condition. First, while investor owned firms are controlled by capital owners, cooperatives give control over the firm to other, marginalized classes of patrons – customers, employees, or suppliers. Second, investor owned firms typically allocate one vote per share, that is, voting rights are allocated in proportion with the volume of investment. By contrast, most cooperatives (although not all of them) follow the Rochdale principles in allocating one vote per member, regardless of patronage volume. The principle of one vote per member ensures a more egalitarian distribution of power. Overall, cooperatives incorporate elements of civic associations to the extent that their governance processes facilitate meaningful democratic participation.

As active participants in economic life, cooperatives offer associations and social movements means for shaping economic life from within, realizing or prefiguring alternative visions of the socioeconomic order. At the same time, the hybridity of cooperatives makes them vulnerable to cooptation by incumbent interests, as their embeddedness in the market makes them dependent on other economic actors that may represent opposing interests¹⁰. The demand of organizational survival may blunt the oppositional edge of cooperatives, rendering their distinctiveness merely symbolic, and thus diverting energy and resources from more meaningful efforts for social change.

In sum, to explain how Organic Valley can overcome these challenges of hybridity and reproduce itself as an agent of civil society in the market, we need to examine: 1) the reproduction of its identification with (a certain interpretation of) the organic social

¹⁰ See the related discussion in the Introduction.

movement and its values and goals; and 2) how it institutionalizes participatory, democratic governance that represents its members and buffers it from pressures by financial markets to maximize shareholder value. The following section theorizes organizational identity in relational terms, which allows us to study how Organic Valley's hybrid identity is reproduced and how it produces effects in value chain relationships.

The Firm as a Nexus of Relationships

Organic Valley's organizational identity is the answer to the question "Who/What is Organic Valley?" Any political/moral meanings would be included in that answer. However, there is not necessarily a single answer to this question. Particularly, different stakeholders of an organization — e.g. investors, employees, consumers — often have different answers. I have shown that Organic Valley is a relationship-based business, and its work depends on the coordination of the actions of multiple stakeholders throughout the value chain. For some of them, the identity question is "Who are we?", while for others, it is "Who are they?" Across stakeholders, there are variations not only in the meanings of the identity, but also in its effects and the processes through which the identity is reproduced. In order to capture these variations, we need to develop a relational approach to organizational identity.

Institutional economics often views the firm as a "nexus of contracts." Jensen and Meckling, in their landmark article, argued that "most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals" (1976:310). From a sociological perspective, we can conceptualize the firm as a cultural object that serves as a nexus of relationships among transacting social agents. The political/moral meanings of this identity, which are the focus of our inquiry: 1) affect the

terms of the transactions; 2) are constituted in the relationships; and at the same time 3) constitute the identities of the transacting agents.

It is useful to relate this view to some other theoretical approaches. First, by including in the concept of identity agents that are not identified with the organization, the approach stands in contrast to the prevalent approach in organizational behavior that considers identity only as reflecting the views of members of the organization (Albert & Whetten 1985). It also joins critiques of Albert and Whetten, who conceptualize identity as changeable, as opposed to those aspects of the organization that are “central, enduring and distinctive” (Gioia et al. 2013). In my view, organizational identity, like any other cultural object, is never inherently stable, and the endurance of any aspect of it depends on processes of reproduction.

A second useful comparison is to Hsu and Hannan’s (2005) conception of organizational identity, which is grounded in the organizational ecology approach. For Hsu and Hannan, “organizational identity consists of social codes, or sets of rules, specifying the features that an organization is expected to possess” (2005:475). Similarly to my concept, “this formulation holds that identity inheres in the expectations, assumptions, and beliefs held by agents, both external and internal to an organization” (2005:476). Homogeneous sets of agents can be classified as *audiences*, “collections of agents with an interest in a domain and control over material and symbolic resources that affect the success and failure of the claimants in the domain” (2005:476). Audiences’ expectations, assumptions, and beliefs regarding the organizations affect their valuation of the worth of the organization and therefore also the organization’s ability to benefit from the material and symbolic resources that audiences control. Such audiences include the sets of agents that interact and transact through the firm. In addition, Hsu and Hannan usefully highlight the significance

of external audiences, such as financial analysts (Zuckerman 1999), who do not transact with the organization, but whose expectations and evaluations impact its success prospects.

Hsu and Hannan seek to establish, based on their concept of identity, a concept of organizational form that would allow for clear delineation of organizational populations. In line with this goal, their theory emphasizes the constraining effects of identities, which contribute to organizational inertia and stability in organizational populations. According to their theories, identities shape the fate of organizations by the constraints they impose on them. The features of organizations are constrained by the social codes of their identities, with a violation of these codes leading to devaluation by the audiences. Hsu and Hannan acknowledge that identities can produce effects in other ways, as in the case of Cosimo de' Medici's strategic manipulation of his multivocal identity (Padgett & Ansell 1993). However, they note that the "difficulty of managing a multiplicity of different identities likely outweighs the potential advantages" (2005:476). Such cases remain marginal in their theory, and they do not account for the processes through which organizations can agentially use their identities for strategic advantage, or the conditions under which such agency is possible.

A detailed study of the case of Organic Valley can answer these questions, analyzing the processes through which the cooperative's identity is produced and reproduced and the ways it simultaneously constrains it and used it to attain its organizational goals. This study seeks to answer these questions by conceptualizing identity as dynamic, and by examining how it is constituted and the effects it produces in Organic Valley's relations with key audiences.

A third useful comparison is to Viviana Zelizer's concept of relational work. Relational work is the process of differentiating meaningful social relations in economic

action. In this process, “[f]or each distinct category of social relations, people erect a boundary, mark the boundary by means of names and practices, establish a set of distinctive understandings that operate within that boundary, designate certain sorts of economic transactions as appropriate for the relation, bar other transactions as inappropriate, and adopt certain media for reckoning and facilitating economic transactions within the relation” (Zelizer 2012:146).

Relational work provides us with tools to analyze the functioning of identity and its meanings within relations between transacting agents. When social relations are categorized and invested with meaning, they provide identities to the transacting parties within the relationship. When one of the parties to a transaction is an organization, the organization is assigned an identity in the process, and the other party to the transaction is the equivalent of an *audience* in Hsu and Hannan’s theory. Zelizer’s approach represents a body of work in economic sociology that pays careful attention to the ways the construction of the boundaries defines identities, their investment with meanings, and their role in determining the terms of economic transactions. This body of work also emphasizes agency and creativity in the ways agents negotiate social relations. As such, this approach can help capture aspects of organizational identity that are missing from Hsu and Hannan’s theory: the dynamic character of identities and relations between organizations and audiences; the multiple ways identities can produce effects on the prospects of an organization; and the exercise of agency on shaping identities and manipulating their effects.

A fourth useful comparison of my theoretical approach is to Tilly and Tarrow’s notion of *political identities*. This notion is compatible with the concept of relational work, which Charles Tilly developed with Viviana Zelizer (Block 2012:136, Zelizer & Tilly 2008). For our purposes, it provides sensitivity to the production and effects of the political/moral

meanings associated with identities. For Tilly and Tarrow, identities “have four components: (1) a boundary separating me from you or us from them, (2) a set of relations within the boundary, (3) a set of relations *across* [emphasis in source] the boundary, and (4) shared understandings of the boundary and the relations” (2015:107).

The relational approach that emerges allows us to examine the political/moral meanings of Organic Valley’s identity in multiple relations with stakeholders. It is sensitive to the changeability of these meanings, and to the efforts of agents to reproduce, contest, negotiate, and change them. Relationships are also the site in which the effects of political/moral meanings are produced, influencing the terms of transactions and shaping the identities of the agents engaged in these transactions.

THE TRANSACTION

Williamson (2005:6) conceptualized the governance of a transaction as “the means by which to infuse order, thereby to mitigate conflict and realize mutual gains.” His approach focused on the examination of “the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures” (1981:553). For Williamson, adaptation to uncertainty is “the central problem of economic organization. Conditional on the attributes of the activities (transactions) to be organized, [he focuses] on the comparative efficacy with which alternative modes of governance effect good order (adaptation) during the ex post contract implementation interval” (2005:3). Williamson distinguished between autonomous adaptation, which is better achieved by markets, and coordinated or cooperative adaptation, which is better achieved by hierarchies. For Williamson, hierarchical governance structures emerge to solve problems of investment hold-up that arise in uncertain, recurring transactions that require high investment in

transaction specific assets. In such transactions, contracts cannot sufficiently address in advance emergent contingencies to effectively prevent opportunistic behavior. Under such conditions, parties would hold up investment in transaction specific assets to avoid a situation in which the other party takes advantage of their commitment to renegotiate better terms for the contract. In this view, firms emerge to avoid such costly situations by establishing a hierarchical governance structure that would coordinate the transaction.

Williamson's theoretical approach was highly generative and proved useful in many situations. However, it soon became clear that it was limited in its ability to account for many cases. A major critique came from sociologists who argued that Williamson's emphasis on formal institutional structures was excessive and ignored the important role of social relations in ordering transactions. Granovetter (1985) critiqued Williamson for viewing markets as "undersocialized," comprising atomized economic actors, and hierarchies as "oversocialized," with total control over subordinate individuals. Granovetter suggested that the embeddedness of economic actors in concrete structures of interpersonal relations can account for the generation of trust and the prevention of malfeasance in transactions. These suggestions were followed by others who developed a concept of *relational governance*. Powell (2003), for instance, argued that relational, or network governance was a distinct form of economic organization that was qualitatively different from market and hierarchy, and, in contrast with Williamson's view, did not simply lie midway on a market-hierarchy continuum.

Powell argued that Williamson's emphasis on contracts and firms does not simply fail to account for important aspects of transaction governance in general, but that changes in economic organization in the late 20th and early 21st centuries brought to the fore alternative forms of governance as well as governance problems other than investment

hold-ups and control of opportunism. Such trends in economic organization include vertical disintegration, the rise of knowledge economies, and increased pace of change and innovation. Under these conditions, an increasing share of transactions was governed in ways that could not be usefully categorized as market or hierarchy, and scholars continuously identified additional meaningful distinctions between other forms of governance. Cases in point are *modular governance* (Langlois 2003, Sturgeon 2002), in which marketers rely on codified contract manufacturing for production; and *sustained contingent collaborations* (Herrigel 2010) in which both supplier and buyer collaborate on design and manufacturing in iterative transactions with varying role definitions. Many such studies found that transaction governance arrangements revolved around the need to facilitate the exchange of knowledge and learning that underpins innovation. While such concerns echo Williamson's emphasis on adaptation under conditions of uncertainty, they shifted the focus from the *costs of* to the *capacities for* such adaptation.

Holmström and Roberts (1998) offer a more comprehensive critique of Williamson's view. Firms, they argue, "have to deal with a much richer variety of problems than simply the provision of investment incentives and the resolution of hold-ups" (p.75). Such considerations include "agency problems, concerns for common assets, difficulties in transferring knowledge, and the benefits of market monitoring" (p. 75). At the same time, investment incentives and other problems are dealt with using a variety of means. Gilson, Sabel, and Scott (2009) take this critique further, arguing that it undermines the very dichotomy between firms and markets. "The essence or nature of the firm," or of any governance structure for that matter, "is not to solve this or that governance problem. The firm does not in this sense have an essence or nature: It bundles governance instruments as the calculus of advantage in particular contexts suggests, and retains that form as a result of

path dependency even as changed circumstances cause new competitors to adopt different arrangements” (p.498).

The resultant theoretical view is a many-to-many relation, in which governance structures combine bundles of governance instruments to address multiple governance problems. The pursuit of efficiency is just one type of reasoning that can be employed in the construction of governance structures, among others such as supporting learning (Sabel 1993) or maximizing shareholder value (Lazonick and O'sullivan 2000). This theoretical view does not allow us to take for granted the range of possible governance structures or the problems they respond to; neither does it permit us to make sweeping generalizations about the logics that determine them. Rather, this view requires that accounts of transaction governance are grounded in the empirical context of the studied transactions and limited in their claims to generalizability. At the same time, this view opens up possibilities for extending the scope of theories of transaction governance to address whatever governance structures and governance problems are important in a given empirical context.

This chapter takes as its starting point an open-ended understanding of transaction governance in order to develop a theory of social empowerment and environmental sustainability as transaction governance problems. The open-ended view of transaction governance allows us to go beyond efficiency and recognize other motivations that guide economic actors, exploring the implications of these motivations to transaction governance. In order to extend transaction governance theories to account for social empowerment and environmental sustainability, this paper focuses on the agri-food industry, in which these goals are promoted by a social movement (e.g. Allen et al. 2003, Weber et al. 2008, Sikavica & Pozner 2013). The following section establishes the empirical context needed for the analysis of transaction governance in the agri-food industry.

Chapter 4: Organic Valley as an Agricultural Cooperative

In the previous chapter, I suggested that for a cooperative to be considered as an agent of civil society in the market, it needs to meet two conditions that ground it in an autonomous civil society logic. First, the cooperative needs to have a collective identity that represents alternative values and goals to those prevailing in the market, and that resonates with social movements in the cooperative's environment. Second, a cooperative's civil society character depends on governance processes that empower members to meaningfully participate in determining the cooperative's actions.

I argued in the Introduction that Organic Valley is puzzling in its ability to establish a civil society governance of a large mission-driven value chain. One possible objection is that this puzzle can be explained away simply by the fact that Organic Valley is an agricultural cooperative. Theories of cooperatives typically attribute their ability to produce collective goods to their ownerships structure (Nourse 1945; Hanssman 1996) or organizational form (Schneiberg 2010). Are not all agricultural cooperatives mission-driven organizations that combine elements of business enterprise and civil society organization? Schneiberg et al. (2008), for example, show that the formation of agricultural cooperatives and insurance mutuals in the U.S. around the turn of the 20th century was influenced by the presence of the Grange and the Farmers' Alliance, anti-corporate social movements that sought to promote an alternative socioeconomic order. Indeed, if we consider all agricultural cooperatives as organizations that combine elements of business enterprise and civil society organization, there is little that is special about our case. Organic Valley is only a minor player within the sector: agricultural cooperatives had in 2014 a business volume of \$246.7

billion (USDA 2016). They accounted in the late 1990s for about one-third of marketed goods and over one-fourth of input supplies in U.S. agriculture (Gray 2009).

This chapter deals with this objection by situating Organic Valley in the context of agricultural cooperatives in the U.S., arguing that it stands out among them in its social movement roots, strategy, and ideology. These distinctive characteristics give it a different mission than other large cooperatives, stronger alignment with contemporary social movements, and greater capability to resist market pressures in the pursuit of its mission. The chapter begins with a historical review and a current assessment of agricultural cooperatives and their connection with farmers' social movements. Then, the chapter traces Organic Valley's distinctive social movement roots and the cooperative's formation, showing how these led to the development of an innovative cooperative model.

AGRICULTURAL COOPERATIVES AND AGRARIAN MOVEMENTS

Cooperatives and Their Relations to Farmers' Movements

The formation of cooperatives was tied since its beginnings to mobilizations by social movements that sought to improve the lot of the disadvantaged through economic self-organization. Mutual insurance and financial aid companies started in Europe as early as the 16th century, with the first mutual fire companies documented in London and Paris in 1530. Cooperatives had their roots in the medieval association, particularly the guilds and welfare-oriented confraternities. Cooperatives, mostly consumer controlled, started developing in the second half of the 18th century. A distinct cooperative movement emerged in the early 19th century in industrializing cities in Britain and France. They were advocated by activists that sought to develop communal Utopian solutions for the poverty and social problems of the industrial revolution. Most notable among these movement leaders were

Robert Owen and William King in England, and Charles Fourier in France. The cooperative became institutionalized and codified following the model of the Rochdale consumer cooperative that was created in 1844. The Rochdale Pioneers, as they are called in the cooperative movement, were informed by years of experience in Owenite activism, in the labor movement, and in cooperative enterprises (Fairbairn 2001:27). They combined elements from such experiences in the bylaws of their organizations, which were later codified as the Rochdale cooperative principles and served as a prototype in the expansion of cooperatives in Europe and North America¹.

In North America, cooperatives have had their strongest presence in agriculture, where they developed in distinctive forms. Agricultural cooperatives started developing in North America in the 19th century, and were particularly common in the dairy industry. “The physical characteristics of milk and the small production on individual farms encouraged collective action by farmers” (Cropp and Graff 2001:2). Making cheese required milk from multiple farmers, and creamery equipment required more capital than one farm could typically provide. In fact, in the early days, manufacturers of creamery equipment promoted the formation of cooperatives among farmers. The need for frequent collection and the perishability of milk made dairy farmers particularly vulnerable to the market power of local monopsonies and therefore encouraged economic cooperation².

The development of agricultural cooperatives gained momentum after the Civil War, under the influence of the Grange, or Patrons of Husbandry. The Grange was initiated in 1869 by Oliver Hudson Kelly, a USDA clerk, who traveled in the East and South to observe

¹ Zeuli and Cropp (2004), Fairbairn (2001).

² Zeuli and Cropp (2004), Cropp and Graff (2001), Fairbairn (2004).

the situation of farmers and was convinced of the need for an association of that would unite farmers nationally. Kelly, a member of the Masonic Order, traveled the country and organized farmers following a fraternal model of association. The organization grew quickly, and in 1875 had 858,000 members (Fairbairn 2004:29). During these years, control of the organization shifted to the hands of the farmers and steered it in directions that Kelly did not anticipate (Mooney and Majka 1995:32)³.

With the national integration and consolidation of the economy, farmers were exposed to market fluctuations and vulnerable to monopoly and monopsony power. The Grange, and the large farm associations that succeeded it, saw farmers as part of the producer classes that fell prey to exploitation by capitalist monopolies. The Grange's 1874 Declaration of Purposes states: "We are opposed to such spirit and management of any corporation or enterprise as tends to oppress the people and rob them of their just profits. We are not enemies to capital, but we oppose the tyranny of monopolies."⁴ The organization mobilized for the formation of purchasing, marketing, and manufacturing cooperatives as a main way for farmers to gain market power and improve their situation. The Grange sent representatives to Europe to learn about cooperation, and in its 1875 annual convention endorsed the Rochdale Principles⁵.

The cooperatives that were organized in the late 19th century by the Grange, and later also by the Farmers' Alliance, failed for the most part. The main reason for such failures were lack of credit and resistance from elites that united to fight cooperative efforts. The ability of elites to subvert cooperative organization efforts demonstrates their

³ Zeuli and Cropp (2004), Fairbairn (2004), Mooney and Majka (1995).

⁴ Quoted from http://www.oocities.org/cannongrange/declaration_purposes.html . Retrieved on May 14, 2016.

⁵ Zeuli and Cropp (2004), Fairbairn (2004), Mooney and Majka (1995).

vulnerability to resistance by more powerful groups. However, the failed attempts of the late 19th century helped create social networks, knowledge, and experience that would support more successful organization efforts in the early 20th century. Farmer associations were decentralized and localized, varying with regional social and commodity conditions. Cooperatives were a key part of this network of loosely connected organizations; they relied on the organizational infrastructure of farmers' associations to organize, and in turn became part of that infrastructure that helped serve other purposes⁶.

The agrarian cooperative movement was invigorated and developed infrastructure for future organizing through educational programs, which were central to farmers' associations and cooperatives in particular. Education initiatives included literacy, numeracy, organizing, business, oratory skills, and political awareness that reflected the ideology of the associations. For instance, the Southern Farmers' Alliance, under Charles Macune, "developed adult education programs in which children and literate adults helped teach Alliance Men and Women. The mathematics curriculum was grounded in computation of interest rates, crop shares and such figures as the per capita wealth of the nation (the latter providing a basis for comparison of elite wealth versus their own wealth). Reading and writing focused on studying forms of exploitation around the globe, unified by the 'warning' that the 'centralization of wealth and power, a reciprocal process, always leads to repression by the rich and powerful of the poor and powerless' (Mitchell 1987:114)" (quoted in Mooney and Majka, 1995:46).

The early 20th century saw a more successful wave of cooperative development, this time with the American Society of Equity and the National Farmers' Union (NFU) as lead

⁶ Zeuli and Cropp (2004), Fairbairn (2004), Mooney and Majka (1995).

organizations. The success was not only a result of farmers' accumulated experience and improved skills, but also of a more prosperous economy and the securing of supportive legislation and state resources by farmers' associations. The government developed an extension service to support rural modernization in partnership with universities, which supported farmers' self-organization. In 1922, the Capper-Volstead Act exempted farmers' cooperatives from anti-trust laws. In 1926, the Cooperative Marketing Act expanded these exemptions and committed the USDA to form agencies that promoted rural cooperation⁷.

During the 1920s, the "pooling" model became popular, most notably by the California lawyer Aaron Sapiro, who traveled throughout North America to organize cooperatives. In marketing pools, farmers pooled their crops and marketed them cooperatively to capture a large market share, using their market power in collective bargaining. Regardless of the use of their specific products, farmers were paid for their crops according to the pool's average sale price⁸.

The momentum of cooperative organization was lost as the economy entered the Great Depression. With the New Deal, a cooperative Farm Credit System was established, and government programs supported rural electrification cooperatives. However, the New Deal also strengthened the dependence of cooperatives on the government and weakened their connection with grassroots activism. A split became apparent among farmers' associations along the spectrum between conservative and radical. The Farm Bureau was the largest conservative association, with constituency among the rural elites and close ties to government, especially to the extension service. The NFU carried on a legacy that was

⁷ Zeuli and Cropp (2004), Fairbairn (2004), Mooney and Majka (1995).

⁸ Fairbairn, 2004.

close to the Grange and the Farmers' Alliance. The Farmers' Holiday Association and the Southern Tenant Farmers' Union took an even more radical line⁹.

After World War II, cooperatives entered a phase of consolidation, professionalization, and continued departure from their social movement roots. Prices for farm products increased during the war and remained high until 1951. The drop in prices combined with broad adoption of farming technologies led to a dramatic decline in farm population. The number of farms in the U.S. reached a peak of 6.8 million in 1935, as the New Deal was taking shape, with just over a quarter of the population living in farms. By 1970 the number of farms dropped below 3 million and the share of farm population fell below 5% (see Table 4 below). This context brought simultaneously a sense of struggle for survival and loss of much of the farmers' electoral power. In this climate, the Farm Bureau adopted an increasingly conservative political ideology which the NFU opposed by renewing populist mobilization. Those efforts, however, mellowed down, and the NFU moved toward mainstream Democratic politics after it was subject to McCarthyist attacks in the early 1950s¹⁰.

By the late 1950s, thus, the agrarian movement ceased to be a major player that represented opposition to the mainstream in the U.S. Following Taylor (1989), Mooney (1996) argues that the agrarian movement developed an abeyance structure during those years, which allowed it to maintain continuity during the unreceptive political environment of the postwar period. Such structures were kept in more radical organizations such as the

⁹ Zeuli and Cropp (2004), Fairbairn (2004), Mooney and Majka (1995).

¹⁰ Fairbairn (2004), Mooney and Majka (1995), USDA data.

U.S. Farmers Association that originated from the more radical Iowa Farmers' Union, and later in the 1970s in the American Agriculture Movement¹¹.

At the same time, cooperatives established themselves as main players in the growing U.S. agricultural sector. Cooperatives merged and consolidated to achieve scale advantages and market power. Mergers were also a way to adapt to a sparser farm population and improving transportation technologies. While the number of cooperatives consistently declined, they grew larger and their market share in many sectors increased. The table below shows this trend in the dairy industry, which has the strongest presence of cooperatives in the U.S. Market share data represents marketing from the farm gate (as opposed to processing or distribution)¹². The table shows a steady increase in cooperatives' market share, from 30% in 1930 (for which the earliest data is available) to 86% in 2002. This increased market share was divided by fewer, larger cooperatives. The number of cooperatives begins a consistent dramatic drop in the second half of the 20th century, from 2,210 in 1950 to 132 in 2012.

¹¹ Mooney and Majka (1995), Mooney (1996).

¹² Zeuli and Cropp (2004), Fairbairn (2004).

Table 4: U.S. dairy cooperatives over time

Year	Number of Dairy Cooperatives	Share of farm level marketing	Share of total cooperative volume by 4 largest cooperatives	Share of total of U.S. milk market by 4 largest cooperatives
1929-1930	2,458	30%		
1940-1941	2,374	48%		
1950-1951	2,210	50%		
1960-1961	1,609	61%		
1969-1970	971	73%		
1980	435	77%	32%	25%
1992	265	82%	30%	25%
2002	196	86% (including 3% of milk from non-members)	49%	42%
2012	132	84% (including 3% from non-members)	48%	40%

Source: USDA data, compiled from various sources.

Growth and consolidation in the agricultural cooperative sector was coupled with a movement toward professionalization and adoption of better management techniques in cooperatives. Experience in cooperative management had been gathering, procedures got formalized, and expertise was emerging as cooperatives attracted the attention of agricultural economists. With these developments, cooperatives generally enjoyed growth and business success; but with the implication that cultural focus has shifted from grassroots participation to professional norms of management to business success¹³.

¹³ Fairbairn (2004), Gray (2009).

In terms of their place in the economy and their relationship with the polity, agricultural cooperatives have turned after World War II from challengers to incumbents. In some cases, cooperatives became the target of activism by agrarian movement organizations. In 1955, in the middle of another farm crisis, the National Farmers Organization (NFO) was started in Iowa, with a renewed focus on collective bargaining. Like its predecessor, the Farmers' Holiday Association, the NFO demanded that farmers would be paid a price for their products that reflected the costs of production plus profit. The NFO mobilized farmers to demand such prices from their cooperatives, and generated much conflict with other farm associations. The NFO organized holding actions that received ample media attention, in which farmers withdrew their products from the market (and their cooperatives), as a way to demand what they saw as a fair price¹⁴.

The consolidation of cooperatives led to increased market concentration, a trend that was shared by cooperative and non-cooperative agricultural sectors. In dairy, four large regional cooperatives were formed in the 1970s through mergers. By 1980, as the table above shows, the four represented 32% of the cooperative market share. In the 1990s, there was another wave of market restructuring and consolidation, adapting to the integrating national and international markets and mimicking trends in other agri-food sectors and driven in part by the need to offset the increasing market power of food retailers and international consumer packaged foods. Consequently, the four largest dairy cooperatives held 49% of the cooperative market share in 2002. The 1990s also saw a wave of agricultural cooperatives demutualizing and turning into investor-owned companies¹⁵.

¹⁴ Mooney and Majka (1995).

¹⁵ Zeuli and Cropp (2004), Fairbairn (2004), (Hendrickson et al. 2001), USDA data (see table below).

This consolidation was part of a response by agricultural cooperatives to changes in the agri-food industry that fundamentally altered the conditions under which they operated. Under the new conditions, power and the ability to create and appropriate value moved from producers to marketers and retailers, and they depend on flexibility and strong connection with consumers. These trends have outdated cooperatives' traditional strategies of gaining large shares in agricultural commodity markets and controlling manufacturing (in the dairy sector). Cooperatives are adapting to these trends in various ways that, as the following section will show, are sometime at odds with their identity as civil society organizations.

Assessing the ability of agricultural cooperatives to empower farmers over the years requires an appreciation of the change in their context. In 1880, when the Grange was in its early days, farmers constituted over 40% of the population while accounting for a quarter of the GDP (see the table below). By comparison, in 1990, farmers comprised less than 2% of the population and only accounted for 1.4% of the GDP. This trend implies that, in terms of their place in society, farmers turned from a group of foremost political and economic importance to one that is quite marginal. While the agrarian movements of the late 19th century championed a cause that pertained to almost half the population, the political potential of contemporary cooperatives is much more limited.

Table 5: The U.S. farming sector over time

Year	Number of Farms (thousands)	Farm Population's Share of Total Population	Gross Farm Product Share of GDP	Farm share in GDP / Farm Share in Population
1880	4,009	43.8%	24.8%	0.57
1890	4,565	39.3%	20.9%	0.53
1900	5,740	39.3%	19.7%	0.50
1910	6,406	34.9%	-	-
1920	6,518	30.1%	-	-
1930	6,546	24.9%	8.4%	0.34
1940	6,350	23.2%	6.4%	0.27
1950	5,648	15.3%	6.7%	0.44
1960	3,963	8.7%	3.8%	0.43
1970	2,949	4.8%	2.5%	0.52
1980	2,440	2.7%	2.0%	0.74
1990	2,146	1.9%	1.4%	0.72

Source: Data from the Historical Statistics of the United States, series Ca10, Da2, Da4, Da15, Da16, Da1271, Da1285.

Farmers' economic situation displays a more complex trend. The ratio between farmers' economic share (farm share in GDP) and their share in the population represents farmers' economic situation relative to the rest of society¹⁶. This value is in steady decline, from 0.57 in 1880 to 0.27 in 1940, and then steadily rises to 0.74 in 1980. Thus, before World War II, agricultural cooperatives were struggling to counter an erosion in the economic situation of farmers that pushed most of them into poverty, reaching a painful low in 1940 following the Great Depression and the droughts of the 1930s. This trend was

¹⁶ This value is a rough approximation of the ratio of farmers' average per capita income and the national average.

replaced since 1940 with a steady increase in the economic situation of surviving farmers, and by 1980 they were practically members of the middle class. This shift in trends occurred around the same time when other trends became sharper and more pronounced — the decline in the number of farms, the share of farmers in the population, and the number of cooperatives. At least in part, we can attribute these correlated trends to technological progress in farming and increased professionalization in cooperatives that led to consolidation at all stages of agri-food value chains. These data support the claim that cooperatives improved the situation of individual farmers who remained in farming, while failing to resist the trend that drove most farmers out of business. It could be argued that cooperatives simply accepted the inevitability of the economic consequences of technological progress. While this is probably true to some extent, the case of Organic Valley demonstrates the possibility of taking a different path — one that emphasizes agricultural production at a higher quality, higher price premiums, and a smaller scale of farming.

The Current State of Cooperatives

The historical survey above makes it clear that historically, agricultural cooperatives have functioned as agents of civil society in the market. First, they represented alternative values and goals to those prevailing in the market, pursuing the goals of farmers' social movements and seeking to better the situation of farmers as a disadvantaged group. In addition to economic self-help, they filled important social, cultural, and political functions for their members. Second, cooperatives were vehicles for economic democratization, empowering farmers and enhancing their control over their economic conditions (even though the success of these efforts was limited). This section examines the extent to which these two

conditions for cooperatives being agents of civil society in the market apply to contemporary cooperatives.

Cooperatives as Representatives of an Alternative Economic Ideology

There is little evidence that contemporary agricultural cooperatives provide a meaningful alternative to the goals and values prevailing in the market. Thomas Gray, a sociologist at the USDA Rural Business-Cooperative Service, observes that “in order to survive as businesses and to compete with large (highly robust) multinational investment firms, many cooperatives followed organizational strategies that paralleled those of their competitors” (Gray 2009:10).

Cooperatives’ ability to represent an alternative vision is limited by their disconnection with contemporary social movements and their values. In their formative years, agricultural cooperatives in North America were concerned with the economic empowerment of farmers as a group and class-based, anti-corporate politics. These causes, however, are no longer part of the identity of large contemporary cooperatives. By contrast, contemporary cooperatives seem to follow the hegemonic market ideology and promote the interests of farmers as individual business owners, rather than farmers as a group. By doing so, cooperatives largely lost their ability to generate a sense of collective identity among their members. While cooperatives have served the economic interests of many farms, they supported a path of agricultural industrialization that has gotten many farmers out of business, and thus, according to Gray, failed at:

keeping family farmers (as a group) in farming . . . Most [cooperatives] have supported a trajectory that depends upon large capital-intensive production units and technology, with heavy reliance on external sources of energy and credit. This path of development has been a successful one economically for many agricultural co-ops and has enabled them to oppose monopoly interests in the marketplace. However they have failed many farmers (when farmers

are considered as a group) because they followed a development path (traditional and capital-intensive) that deepened tendencies toward farmer displacement (Gray 2009:1, 10).

While contemporary cooperatives have little to do with the class-based politics that characterized their predecessors, they have little affinity with the post-industrial values that animate contemporary social movements. Traditionally, agrarian ideology has been grounded in privileges that were increasingly questioned since the civil rights movements — such as gender (patriarchy), race (whiteness), and religion (Christianity). Brett Fairbairn, another prominent scholar of cooperatives, observes:

Changing issues, attitudes, and priorities led to less commitment by members to old kinds of co-ops; co-ops perceived this as a decline in member loyalty and increase in individualism . . . Since the 1970s, many of the new and expanding kinds of co-ops have been those dealing with values, lifestyles and services rather than with basic material goods. Much of the growth in housing co-ops, worker co-ops, community development organizations, women's co-ops, aboriginal co-ops, co-ops associated with ecological ideas or health and others, have occurred within this new or post-industrial framework (Fairbairn 2004:47).

Another reason for skepticism about the ability of leading cooperatives to represent an alternative economic vision is their deep ties with other large food corporations through joint ventures and strategic alliances, which jeopardize their ability to serve as an independent force (Hendrickson et al. 2001). For example, Dairy Farmers of America (DFA), the largest U.S. dairy cooperative, entered in 1998 a joint venture with Suiza Foods, which gave the cooperative 33.8% ownership of Suiza's Fluid Dairy Group (Siebert et al. 2000). In 2001, Suiza completed a purchase of Dean Foods, forming the largest U.S. marketer of fluid milk. In 2007 and 2009, both companies had lawsuits filed against them by organized farmers for a conspiracy to eliminate competition in the U.S. Southeast and Northeast. After years of legal struggle, DFA settled the lawsuits against it, without admitting wrongdoing, for a total compensation of \$190 million (Dairy Farmers of America

2013; Astley 2014). Gary Hanman, the DFA CEO who faced the charges, earned \$31.6 million during his seven years tenure in this role (Martin 2012).

Participation of Farmers in Governance

The degree of meaningful participation of farmers in the governance of contemporary cooperatives is hard to adequately assess, due to scarcity of high quality empirical evidence. In the U.S., agricultural cooperatives are typically governed by a board of directors comprised of elected members and managed by a professional managers (Chaddad and Iliopoulos 2013). In 1995, 93% of the U.S. agricultural cooperatives exercised the one-member-one-vote rule to elect directors and vote on referendums (Reynolds 2000). Despite these formal democratic characteristics, Thomas Gray argues that “historically most agricultural cooperatives have tended to shift in the direction of bureaucratic solutions, efficiency, and the sacrifice of grass-roots wisdom” (Gray 2009:v). In Sweden, a 2006 survey of members of a large traditional cooperative found that “members perceive the cooperative to be so large and complex that they have difficulties understanding the operations. Hence, they become dissatisfied and uninvolved, and they mistrust the leadership. Moreover, they do not believe that the cooperative can be remodeled to strengthen member control” (Nilsson et al. 2009).

The increased emphasis on business success involved a shift in power and influence from farmers’ participation to managerial expertise. First, the increased size of cooperatives and diversity of membership made it harder to develop meaningful democratic, participatory governance institutions. Second, the increasing complexity of the business of large cooperatives made them more dependent on expert knowledge and less transparent and comprehensible to members. Third, cooperatives’ close ties with food corporations

undermine their ability to forge an autonomous path that reflects members' voices. Under such conditions, observes Gray, members tend to mute their participation and lose their connection to the cooperative as a source of meaning and sense of self-efficacy:

Historically, cooperative membership has tended to dismiss its own voice (as a collective) in deference to managerial authority and the very real demands for economic success. In turn, the authority of managerial expertise has frequently favored short-term profits and business survival, and sacrificed activities that do not make an obvious contribution to the bottom line (e.g., membership programs) (Gray 2009:14).

Ideological Discourse in Contemporary Land O'Lakes

The current ideological discourse in large dairy cooperatives is evident in the 2014 Annual Report of Land O'Lakes, the second largest dairy cooperative in the U.S. The discourse in the 2014 Annual Report is centered on Land O'Lakes' role of creating value for their members as individual businesses, and has little appeal to shared values or collective identity that goes beyond business success. The report emphasizes the cooperative's growth and high business performance as a way to secure those of its member farms: "As we grow, we are also committed to helping our member-owners grow with us. Because of the size and scope of the Land O'Lakes, we have the ability to deliver additional value and make a difference in our members' businesses." Likewise, the report shows no trace of the legacy of the cooperative movement in critiquing the dominant corporate economic order or promoting an alternative order. Rather, it joins them in embracing the ideology that emphasizes the maximization of shareholder value as the guiding principle in corporate governance (Lazonick and O'Sullivan 2000). The cooperative is not seen here as an explicit ideological project or a vehicle for social change, but rather as vehicle for business success. Land O'Lakes is different not because of the ends it promotes, but because the cooperative structures give it certain strategic advantages and allow it to bring its owners value in

different ways, as businesses instead of individuals. This perspective matches economic theory's view of cooperatives.

The report opens with a letter to stakeholders from the cooperative's CEO and from the chairman of the board. The address states that "with consistently strong performance, our capacity to provide value and service to our members is reaching new levels." This value created by the cooperative that the report refers to is financial, in the form of "record patronage payments" — the dividends the cooperative distributes to its members based on the amount of business they do through it. Financial value also includes "strong Section 199 deductions" that U.S. businesses engaged in domestic activities are eligible for. The services mentioned in the report also support growth or business success, including "continued and competitive market access," support with the "latest technology innovations," and "new tools to members that leverage enterprise buying power to deliver cost savings in such areas as travel, supplies and vehicles." The cooperative also mentions it supports members by offering "powerful advocacy and representation in Washington, D.C., and across the country." However, the report does not offer any information about what a political agenda Land O'Lakes advances, and it can be inferred that such advocacy is focused on advancing the cooperative's business interests.

The letter ends with a section on Purpose that opens with the pronouncement that "As a federated cooperative system, Land O'Lakes leverages a powerful and relevant business model designed to support the success of our member-owners." The cooperative system, here, is seen as a means for the success of members as individual businesses, and does not evoke any shared ideology or collective identity. The section adds that "we are inspired by our higher purpose to help feed a growing global population." While this "higher purpose" can be interpreted as values driven, there is little evidence that it has any

ideological depth behind it. Rather, this statement seems to fit the decades-long U.S. agricultural strategy of striving for increased production and developing global markets for such production. From this perspective, the globalization and consolidation of the agri-food industry, the growth in global population, and the development of emergent economies are seen as a great market opportunity to capture a position of dominance in world markets¹⁷. And indeed, in the following sentence that “higher purpose” is reinterpreted as a market opportunity: “Through increased productivity and increasingly sustainable practices, we are committed — as we always have been — to not only participate in this opportunity but to lead into the future.”

ORGANIC VALLEY’S SOCIAL MOVEMENT ROOTS

We can see that throughout the 20th century agricultural cooperatives seem to have lost much of their ability to serve as agents of civil society in the market. There is little evidence that farmers’ cooperatives represent values that are distinct from investor-owned agribusiness or promote an alternative economic vision. There seems to be little connection between the large established cooperatives and contemporary contending movements. And at the same time, the traditional strategy of agricultural cooperatives, establishing large market shares in commodity markets, has lost its effectiveness in securing value and power for farmers in the agri-food economy.

Organic Valley’s ideological and social movement roots are deeply connected to the agrarian tradition, yet differ from those of the established cooperatives. I have argued above

¹⁷ By comparison, Cargill, one of the world’s largest food corporations, defines its purpose as “To be a global leader in nourishing people” (Cargill 2015 Annual Report), and in fact seems to have integrated this purpose into its identity to a far greater extent than Land O’Lakes.

that in the late 1980s, when Organic Valley was formed, agricultural cooperatives had lost their oppositional identity and largely turned into incumbents, especially in the dairy industry. I also showed how the largest and most influential farm associations — Farm Bureau and National Farmers Union— had distanced themselves from radical agrarian populism and worked closely with state institutions through the mainstream political channels. In general, the incumbent cooperatives and farm associations, along with the government, agribusiness, and the agricultural universities, promoted the industrialization and intensification of agriculture that Organic Valley believed led to the decline of the family farm and deterioration of the environment. This section shows how during the 1980s farm crisis, an active farm movement rose again that upheld these causes and represented a more radical critique of U.S. agriculture.

Such movement, however, was distinct from earlier agrarian movements and more attuned to contemporary “new social movement” sensibilities. In order to find such attunement, the movement had to overcome deep ideological tensions. First, agrarianism has not traditionally involved concerns for environmental sustainability, which were key to the ideology that drove the formation of Organic Valley. Second, the agrarian ideal implies class, race and gender inequalities that were at the center of critique by the civil rights and other new social movements (see Guthman 2014:208). This section, thus, also accounts for the emergence of a progressive agrarian movement that helped reconcile these tensions. The foundation of Organic Valley was directly motivated by such left-wing, progressive agrarianism.

The Emergence of Progressive Agrarianism

The farm crisis of the 1980s gave rise to a wave of farmers organizing, as the large established farm organizations seemed to offer limited responses to the dire situation of most farmers. Such organizing was generally decentralized, and took diverse forms, including growth in right-wing extremism. Among these active movement organizations, a left-wing progressive stream emerged in connection with the New Left and the movements of the 1960s (the so-called “new social movements”), such as the anti-war movement, civil rights, feminism, and environmentalism. Such movements influenced farming communities through students from rural backgrounds who returned to their communities, and others, part of the back-to-the-land movement, who migrated to rural areas¹⁸.

This progressive stream was short-lived as an active movement, but had an important influence on the formation of Organic Valley. The founders of the cooperative and its early supporters came from the networks of farm organizing in Wisconsin in response to the farm crisis. The progressive stream, in particular, helped create an ideological synthesis that mitigated tensions between the agrarian tradition, environmentalism, and the progressive values that animated the organic movement. This synthesis is still an important part of Organic Valley’s identity, and it facilitates the distinctive alliance it creates between farmers and other social groups¹⁹.

The Driftless region, in which Organic Valley started, was especially exposed to leftist progressive influences. The region is located in proximity to three progressive agricultural universities and had contact with the student movements of the 1960s more than most other

¹⁸ Mooney and Majka (1995:106-119), Pratt (1996).

¹⁹ CROPP (2013a), Mooney and Majka (1995), Pratt (1996).

rural areas. La Farge, Organic Valley's headquarters, is located about two hours' drive from the University of Wisconsin at Madison, three hours from the University of Minnesota, and four hours from Iowa State University. These universities attracted students from farming communities, where they met students of different backgrounds, facilitating the development of a culture that accommodates both rural and urban influences. While many land grant universities were conservative, these universities were sites of lively student activism in the late 1960s and early 1970s. Madison in particular saw intense and radical civil rights and anti-war activism (led by a core of New York Jewish students with Communist backgrounds), most famously the bombing of the Sterling Hall, where the Army Math Research Center resided. These campuses were also influenced by environmentalism and held rallies on the first Earth Day in 1970, a foundational event for the environmental movement. In Madison, the keynote speech was given by Nelson Gaylord, a Wisconsin senator who had initiated Earth Day, while at the University of Minnesota, Buckminster Fuller was among the featured speakers²⁰.

During the farm crisis of the 1980s, many who had been in college during the 1960s were now leaders in local efforts to organize farmers. In particular, the United States Farmers Association (USFA) actively recruited young, highly educated farm men and women it identified as promising leaders. The Iowa-based USFA was a small and committed organization that maintained the tradition of leftist agrarianism. It emerged from the Iowa Farmers Union, which left the NFU as its politics shifted toward the mainstream during the McCarthyism of the 1950s. The USFA incorporated New Left elements during the 1960s and

²⁰ Brady (2010), Nelson (1970), Quinn (2012), Siano (1995).

deliberately sought to cultivate a progressive farmers' movement that would adapt leftist agrarian populism to the spirit of the time and revitalize the organization²¹.

The USFA, relying on a tradition of agrarian anti-militarism, stood out among farm organizations in publicly opposing the Vietnam War. Fred Stover, the head of the organization who was born in the late 19th century, appeared in college campuses and worked with Students for Democratic Society (SDS), one of the main student activist movements of the 1960s. During the 1970s, the organization recruited young activists and connected them with USFA's aging veterans of the earlier waves of agrarian populism, as far back as the Farmers' Holiday Association of the Great Depression. The young activists, who were largely unfamiliar with those movements, were impressed by the old-timers and organized in 1980 "a symposium at Iowa State University on the historic roots of agrarian protest. The three days affair featured a panel of historians, veterans of past rural struggles, contemporary farm activists, poets such as Meridel LeSueur and Don West, and films such as 'Northern Lights'" (Pratt 1997: 280)²².

These young activists helped organize farm coalitions in several states. In 1982, these organizations formed the North American Farm Alliance (NAFA), which was deeply involved in the rural insurgencies that followed the 1980s farm crisis. In Wisconsin, Tom Quinn, one of these young activists, started and headed the Wisconsin Farm Unity Alliance, which played a big part in the formation of Organic Valley.

NAFA activists managed to secure funding from various sources, including hefty sums from the proceedings of Willie Nelson's Farm Aid concerts. Like the NFU and other

²¹ Mooney and Majka (1995), Pratt (1996).

²² Mooney and Majka (1995), Pratt (1996).

mainstream organizations, the coalition engaged in legal counseling to farmers facing foreclosure and legal action. However, NAFA activists studied the tactics of past farmers' organizations movements, adapted them to their current context, and helped publicize those tactics among farmers. For instance, they revived the 1930s practice of "penny auctions," in which protesters interfered in the sale of foreclosed farms and prevented (often violently) any genuine bids on auctioned items.

NAFA also provided an analysis of the situation that combined agrarian populism with new elements. According to Mooney and Majka (1995:116), the traditional agrarian analysis "seems to have readily absorbed the environmentalist and feminist elements contained in the New Left agenda. NAFA's first executive director was a feminist woman, Carol Hodne (personal interview 1989) . . . Interviews with leaders indicate a conscious effort not only to resist patriarchal relations within the organization but also to attack the institutional bases of patriarchy in rural society." The inclusion of environmental interests in the analysis was based on the traditional agrarian-left critique of the productionist ideology of the agricultural mainstream (including the state, agribusiness, and the agricultural universities), which heavily promoted agricultural industrialization. Agricultural overproduction was seen as the cause of the farm crisis and the decline of the family farm, as well as a main source of environmental degradation²³.

Such analyses were not unlike those organic activists had been promoting for over a decade. The influence of the organic movement, however, had failed to gain much following in rural communities, except among back-to-the-landers. The farm crisis helped legitimize such views, as farmers were encouraged in the 1970s to take on debt in order to intensify

²³ Mooney and Majka (1995).

production, and then hurt in the following decade by the drop in prices that was caused by surplus production²⁴.

Organic Valley's Formation

Fairbairn (2001:27) observes, “Cooperatives form, and to some extent continue to exist, within networks of multipolar interaction, as constellations and coalitions of various groups and interests. It may be more complete to view them, especially in their formative stages, as parts of a web of social ideas and organisations, rather than as isolated and self-contained structures.” This was very much the case in the formation of Organic Valley. The region had a dense network of farmers’ organizations, small and large, of community associations of various kinds, and of cooperatives. While the region was economically depressed, following the 1980s farm crisis and the decline of the locally dominant tobacco sector, it was very rich in social capital. In its formative years, Organic Valley relied heavily on such networks and institutions²⁵.

Organic Valley’s early members included some whose families had farmed in the region for generations, and for various reasons were drawn to organic agriculture. Some were suspicious of chemical pesticides, some were deterred by the high costs of chemical inputs, and few were among the ideologically motivated early adopters of organic farming and sustainable agriculture. Mostly, these farmers were looking for a way to make ends meet in a hard economic situation. Adolph Trussoni, father of one of the early farmers who also worked with the cooperative during those years as an NFO representative, says,

²⁴ Belasco (1989), Oback (2015).

²⁵ Bowen and DeMaster (2014), Hundt (2004), Macgregor (2013).

“Farmers were being put out of business with lower prices and higher costs, so a different agricultural concept that could sell at a premium looked attractive” (CROPP 2013a:13).

Another group among the founders included back-to-the-landers with strong commitment to environmentalism and sustainable agriculture. Many of these had arrived in the region in the 1970s and had cultivated close ties with the native farmers, who mentored them about farming. A main association that tied the back-to-the-landers to each other was the Driftless Bioregional Network, which was founded in 1983. As one of the members put it in a magazine article, “The bioregional vision means working for decentralized, self-determined, equitable, human-scale social organization; building a culture based on all beings’ interconnectedness, and recognizing that we draw spiritual sustenance and meaning as well as nutrition from the natural systems enveloping us” (Bryce 1988). The network had seasonal meetings and published a quarterly newsletter, *The Drift*²⁶.

At first, the regional activism spurred by the economic crisis focused on political action, focusing on influencing the 1985 Farm Bill. While the Reagan administration was proposing to reduce price supports and align agricultural product prices with world markets, farmers advocated to install federal price regulations that would ensure parity, that is, a minimum price for agricultural products that would reflect the costs of production. There were also offers for a supply management program that would regulate prices. Protests had involvement from several members of the core group that would end up forming Organic Valley. They were led by Tom Quinn and Tom Saunders from the progressive Wisconsin Farmers Unity Alliance (WFUA), in connection with many other

²⁶ Bryce (1988), CROPP (2013a), Transcript of an interview of Spark Burmaster by Carol Pine on May 17, 2011.

farm organizations. The protests brought together native farmers and back-to-the-landers who were sometimes at the opposite ends of the political spectrum²⁷.

Schneiberg et al. (2008) showed that Grange activism spurred the formation of farmer cooperatives when political routes of influence by the movement were blocked. Similarly, Organic Valley was founded as an alternative solution after the efforts to influence the 1985 Farm Bill failed. As George Siemon recalls, “Tom Saunders and Tom Quinn [of WFUA] were the primary thought leaders. They said, ‘we can’t count on Washington, D.C., to solve our problems. We have to solve our own’ (CROPP 2013a:28). Organic Valley was among several efforts for cooperative organization in the region. It came out of discussions among a group that mostly involved members of the Unity Alliance, the progressive farmers’ organization that incorporated left-wing agrarianism with environmentalism, and the back-to-the-landers’ Driftless Bioregional Network. George Siemon, who eventually became the cooperative’s CEO, had strong connections to both associations²⁸.

The core group held a series of informal meetings, in which the vision for the cooperative took shape. They envisioned an organic vegetable cooperative that would remain independent and “loyal to local culture.” It would sell its products at a fair price, without “giving in to the concept that we need to compete on price with commercial products” (minutes of a Marketing Project Committee meeting from 12/3/1987). The organizers sought to realize through economic self-organization the parity price they failed

²⁷ Agenda Publication (1986), CROPP (2013a), McCann (1985), Transcript of an interview of Spark Burmaster by Carol Pine on May 17, 2011. Minutes from several Marketing Project Committee meetings in later 1987 and early 1988.

²⁸ CROPP (2013a), Interview with Pam Saunders in August 2014, transcript of an interview of Spark Burmaster by Carol Pine on May 17, 2011, Minutes from several Marketing Project Committee meetings in later 1987 and early 1988.

to achieve through political channels. In this way, they continued a long agrarian tradition of collective bargaining, and received support from farm organizations steeped in that tradition. “The project will start small,” envisioned the organizers, “but fully intends to develop into a major economic factor in the economic future of the community, and to do so in a way that develops and enhances the sustainable agricultural base” (ibid)²⁹.

Among the multiple organizations that were involved in supporting the formation efforts of the cooperative, two played a particularly important role. Tom Quinn of the WFUA worked closely with the organizers, provided initial funding of \$5,000, and helped in fund-raising efforts. Geroge Nettum, the CEO of the Northern Wisconsin Cooperative Tobacco Pool, also provided strong support for these efforts. Tobacco benefited from a federal supply management system and was one of the main crops that supported the local economy. For decades, tobacco farmers in the region held small scale, labor intensive operations that yielded high quality product and lucrative returns. In the 1980s, it had become clear that the sector was losing its market to international growers, and Nettum hoped that the cooperative would provide an alternative. The tobacco co-op had been organized by Aaron Sapiro, the main advocate who popularized collective bargaining cooperatives during the 1920s, and Nettum had heard one of Sapiro’s speeches as he passed through the region. Nettum, a major regional leader, was now serving as a mentor to George Siemon³⁰.

The group held four gatherings in early 1988 that attracted a big, diverse crowd. A third group, the Amish farmers, appeared in those meetings and later joined the cooperative. The Amish started moving to the area in the 1960, drawn by the cheap price of

²⁹ CROPP (2013a), Minutes from several Marketing Project Committee meetings in later 1987 and early 1988.

³⁰ CROPP (2013a), minutes from meetings of Marketing Project Committee (December 1987), CROPP’s board of directors (April and November 1988), transcript of an interview of Spark Burmaster by Carol Pine on May 17, 2011.

land, like the back-to-the-landers. They used traditional farming methods that resembled organic agriculture, and had a communal culture that resonated with economic cooperation. George Siemon, who like them farmed using horses, had good connections with them. The Amish way also found resonance with some of the back-to-the-landers who sought the spiritual side of farming³¹.

After these four meetings, 50 people committed to joining as vegetable growers, and the cooperative got incorporated in March 1988. In the beginning, it relied solely on volunteer work. A week after the incorporation George Siemon proposed the board of directors to start a dairy pool. The pool would start with nine dairy farmers, be managed by Siemon, and have its first shipment of milk in July 1988, turning out to be a force that would drive the cooperative to a national scale, far beyond what was anticipated by its founders³².

The formation of the dairy pool was heavily supported by the National Farmers Organization, through financing, administration, connections, and credibility with farmers. The NFO had strong collective bargaining roots and, a couple of decades earlier, it organized holding actions of farmers against their cooperatives, in demand for prices that reflected production costs. Since then, the NFO became tamer and turned into a large bargaining-only cooperative. Organic Valley offered an opportunity to achieve the old vision of farmers' set prices through organic farming³³.

³¹ CROPP (2013a), minutes from grower meetings in January and February 1988.

³² CROPP (2013a), board of directors minutes from 1988.

³³ CROPP (2013a), board of directors minutes from 1988.

New Cooperative Model

While Organic Valley viewed itself as part of the tradition of American agricultural cooperatives, it also understood itself as different from the established cooperatives. The founders felt that cooperatives often were “more concerned with the profit of the co-op than with the needs of the very farmers they were created to serve. Many American farm cooperatives failed or disappointed their members” (CROPP 2013:39). The story goes that during a debate in one of the early 1988 meetings, one of the farmers stood up and asked, “What would a regular co-op do? I say, we just do the opposite!” (ibid).

Existing cooperatives, the founders observed, “had the attitude that what was best for the co-op was best for the farmers, yet it seemed that the benefits of the cooperatives to the farmers were not much different from those of non co-op businesses” (Siemon 2015a). Thus developed a set of foundational principles that were innovative and rested on the ability to differentiate their products from conventional products, and thus control prices. The main innovation was the core principle that “the business should run at a minimum profit and maximize pay price for the farmers” (Siemon 2015a). Organic Valley’s business model, which is designed around this goal, is presented in the following chapters.

Organic Valley sought to meaningfully involve farmers in governance and avoid the rift that other cooperatives experienced between farmers and management. As Chapter 2 showed and the following chapters will elaborate, farmers’ involvement is centered on governing pay price, supply management, and on-farm production. The division of responsibilities between the farmers and the business is internally called “The Y in the Road.” The pool is responsible for managing the milk supply to match the sales projections of the business. The business is responsible for developing the market according to the needs of the pool and to maximizing the share of members’ milk that is sold as organic.

These principles “give the farmer the assurance that the business is honoring the target price . . . Establishing two sides to our business clearly establishes the dynamics of the primary relationships that makes Organic Valley Cooperative succeed: employees and farmers. The founding farmers recognized the importance of the employees as the other dynamic partner and how with the assurance of the target price the farmers needed to allow the employees to run the business” (Siemon 2015b).

CONCLUSION

The chapter shows that agricultural cooperatives in the U.S. lost their footing in civil society throughout the 20th century. In the late 19th century and the early 20th century, the formative years of the sector, agricultural cooperatives indeed were part of an agrarian social movement and represented an attempt to promote an alternative socioeconomic order through economic enterprise. However, over time, they turned from challengers to incumbents in terms of their place in the economy and their relationship with the state. In part, this had to do with their success in improving the situation of many farmers and in promoting rural economic development. At the same time, this success can also be viewed as co-optation of agricultural cooperatives by agri-business and the state, in the sense that cooperatives failed to realize the more radical visions that fueled them, of an alternative social order in which farmers hold significant power over the market and capital. Indeed, cooperatives played a big part in the trajectory of U.S. agriculture, in which the great majority of U.S. farms went out of business throughout the 20th century. By the late 1950s, the agrarian populist movement that initially fueled agricultural cooperatives had declined as a significant social force, and when a new wave of social movements rose in the 1960s, agricultural cooperatives had little connection with it. Instead, they adopted mainstream

economic ideologies that emphasized economic efficiencies, managerial expertise, and shareholder value maximization.

By contrast, the formation of Organic Valley in the 1980s was fueled by social movement activism that embodied a version of progressive agrarianism that was distinct in its ideology, social constituency, and goals. In contrast with the established agricultural cooperatives, this ideology had strong resonance with contemporary social movements. First, in contrast with traditional farmers' movements, it adopted elements of environmentalism and social progressivism that resonated with young activists and with consumers in the emerging organic market. This would allow Organic Valley to forge strong relationships with social sectors that were essential for its success, and were not accessible to traditional cooperatives. Second, Organic Valley adopted an ideology that emphasized the survival and empowerment of farmers as a social group, with the goal of resisting agricultural industrialization and sustaining the viability of small and midsize family farms. This ideological element allowed Organic Valley to mobilize around this cause and gain strong commitment from farmers who felt alienated from the dominant institutions of U.S. agricultures, including incumbent cooperatives.

We can see that at least at its foundation, Organic Valley realized the potential of agricultural cooperatives to serve as agents of civil society in the market. Organic Valley was founded by contending groups that sought to empower small and midsize farmers, who were otherwise disempowered by the dominant institutions of American agriculture. As an association, Organic Valley had a strong identity that was based on ideology and goals that were oppositional to those of dominant institutions, including the established agricultural cooperatives. Organic Valley sought to use business methods for advancing an alternative socioeconomic order that was based on organic (and therefore, in the view of the founders,

environmentally sustainable, healthier, and more nutritious) farming by small and midsize family farms, with farmer-controlled prices that reflected costs of production. The cooperative structure helped Organic Valley to establish formal farmers' control over the cooperative. And the strong mission served Organic Valley very well in the mobilization processes that are characteristic of entrepreneurial businesses in new industries.

The chapter finds variation over time and between cases in the goals that cooperatives pursue, the values they embody, and the degree to which they involve farmers in determining their conditions. Such variation cannot be adequately accounted for by theories of cooperatives that focus on their ownerships structure (Nourse 1945; Hanssman 1996) or organizational form (Schneiberg 2010). Instead, I highlight the importance of cooperatives' collective identity, interface with external social constituencies, and governance processes. The following chapters expand on the strategies through which Organic Valley realizes its unique ideology in the market, and the ways in which those strategies evolved through participatory governance processes.

Chapter 5: Organic Valley's Dairy Value Chain

During its early years, Organic Valley turned to partnerships with other organizations as a solution to the problem of scarce capital. With little money to invest in its own facilities, the cooperative took advantage of the wealth of dairy infrastructure in the Driftless region.

Because we were so small, we couldn't afford to build a plant to do what we needed to do. It would have been way too much money. So we hired somebody to do work for us and so, you know, necessity, there's a saying necessity is the mother of invention. Okay, well yeah, there wasn't any way to take our organic milk in 1988 and get it to the market without hiring somebody to convert it into cheese for us. We didn't have enough milk to do more than a vat of cheese every couple of days. So that's how we started. We started with that contracting with someone to make cheese for us, and then we went on to contracting with someone to make butter for us, and then to dry skim milk, and then we went to contracting with someone to bottle our milk for us, and so in that way, we built a national supply chain (Louise Hamstead, chief operating officer, Interview).

This approach may have started as a happy historical accident, in which Organic Valley got locked into a relationship-based value chain out of pragmatic considerations. However, the approach soon became a deliberate strategy for the cooperative, which came to define itself as a "relationship-based business." One of Organic Valley's foundational business strategy principles states: "We minimize investment in brick and mortar and prioritize investment in marketing, farmer and employee relationships" (CROPP Cooperative, 2015). Louise Hamstead, chief operating officer, believes that the cooperative relationship-based strategy is supported by the cooperative's culture: "We are a culture of people. We are a culture of worrying about . . . caring about people, caring about our employees, caring about our farmers, caring about our customers" (Interview). Organic Valley's focus on relationship is reinforced by an organic philosophy that emphasizes the

“the interdependence of all life” (Organic Valley’s definition of *organic*, Foundation Documents, 2015).

This relationship-based strategy turned out to become a distinctive strength of the cooperative, serving its fast growth and ability to spread its mission throughout the value chain. Pam Saunders, who had been involved in the Wisconsin Farm Unity Alliance during Organic Valley’s formative years, commented on the uniqueness of the cooperative among other similar efforts in the region during the late 1980s:

My husband and I were farming about three hours north of here, and we had a similar small group of dairy producers that were working on a similar project, and we were in touch with these people down here. . . . The interesting learning, I think, is that our group thought that we had to own the means of production. Whereas this group, I think the genius of what allowed CROPP to get going was the fact that they used existing facilities to do what they’re best at, and then to do what is a private label [that is, outsource processing] and put a brand on it. So to not have invested in a cheese plant, for example, I think, was a really key piece of the success of CROPP (Pam Saunders, Meat Operations and Industry Relations manager).

As Saunders notes, Organic Valley’s relationship-based value chain has similarities to those of leading contemporary brand marketers. In terms of theories of Global Value Chains, these are characteristics of buyer-driven value chains, and Organic Valley is remarkable in its ability to establish them in as a producer control lead firm¹. This chapter introduces Organic Valley’s role as the lead firm of its dairy value chain and the principles through which it governs value chain relationships.

¹ See Chapter 2 for the distinction between producer- and buyer-driven value chains.

ORGANIC VALLEY'S VALUE CHAIN

Innovative Model for a Dairy Cooperative

Organic Valley's value chain is exceptional among dairy cooperatives, and better adapted to the contemporary food economy, in which the ability to create and appropriate value depends more on brand power and attunement to consumers than on a strong position in commodity markets. Organic Valley's value chain is different than most other dairy cooperatives in that it markets processed dairy products but outsources their manufacturing instead of using its own plants.

In the dairy industry, there are generally two types of cooperatives, bargaining-only and manufacturing/processing. *Bargaining-only cooperatives*, the most common type in the U.S., handle the milk from the farm to the first processing plant, aggregate it, and market it to processors. They secure buyers for the milk and negotiate prices and terms of trade. They do not own or operate processing plants. In 2010, 107 out of 151 (71%) dairy cooperatives in the U.S. were bargaining-only cooperatives (Liebrand 2012). Bargaining only cooperatives are consolidating, but overall seem to maintain their place in the industry as suppliers of milk for manufacturing.

Processing cooperatives use their own plants to manufacture dairy products from their members' milk. At least hypothetically, such cooperatives can have more brand power and ability to add value to their members. Over the years, processing cooperatives have operated in a variety of ways: using limited amount of processing to balance milk surpluses from bargaining activities, versus a sole focus on processing; focusing on fluid milk, hard products, or diversified production; marketing processed products under their own brand versus as commodities. In recent years, the consolidation and increased competition

eliminated much of this diversity, and the remaining 44 U.S. dairy processing cooperatives cluster around two types: large diversified cooperatives, and small niche market cooperatives (Liebrand 2012).

Table 6: Type and Size of U.S. dairy cooperatives in 2010

	Small	Medium	Large	Total
Bargaining Only	47	10	50	107
Processing - diversified	0	5	17	22
Processing - fluid milk	1	1	1	3
Processing - niche	16	3	0	19
Total	64	59	28	151

Source: Liebrand (2012), based on USDA data.

Diversified cooperatives handle large volumes of milk and use it either in bulk raw milk sales or for manufacturing a variety of products. Niche marketing cooperatives handle small volumes of milk and use it to produce value-added products for a niche, high-premium market. Large diversified dairy cooperatives account for most of the milk handled by cooperatives — the four largest dairy cooperatives, which in 2012 handled 48% of the cooperative milk volume, were all diversified cooperatives. Organic Valley pursues a similar diversified strategy in the organic sector, with the exception that it has little capital invested in processing plants and therefore enjoys greater flexibility and focus on consumers and farmers.

The cooperative defines itself as a relationship-based business and cultivates strategies and a culture that would support this business model. Organic Valley, in this sense, is similar to leading contemporary consumer packaged goods companies that focus

on their “core competencies” of product development and brand management, while outsourcing mostly everything else (Herrigel 2010: 160-188; Davis 2013). When compared to consumer goods companies, Organic Valley is distinct in that it is owned by its farmer-suppliers and therefore is tied to them as a supply base and deeply involved in on-farm production.

We spend a lot of time on the back end of the supply chain with the execution of sales in the marketplace, so we’ve got great development there . . . We have a tremendous development on the front end of converting farmers to organic and the principles of organic production . . . So [we have legs on the street] on both ends. In the middle, in a conventional dairy, a typical dairy or even a typical dairy cooperative, you would own all your processing plants. You would own some of your trucks. You would own most of those assets, and that’s where we’re different. We don’t own very many assets. We don’t own very many buildings, and instead, we contract with people to do the products for us to our specification under the organic rules and that is what truly does make us unique (Louise Hamstead, chief operating officer).

Thus, Organic Valley has adopted key value chain characteristics of leading food marketing companies and combined them with farmer ownership and control. This chapters presents Organic Valley’s value chain and argues that this value chain configuration was essential to Organic Valley’s success, providing it with the infrastructure, knowledge, and connections that allowed for quick and flexible growth to the national market.

Overview of the Value Chain

Following is an overview of Organic Valley’s dairy value chain, indicating the main activities in each stage and Organic Valley’s role in it.

Figure 9: Organic Valley's dairy value chain



Source: author's analysis

Inputs

Members are responsible for purchasing inputs for their farms, but Organic Valley has optional programs that help members access organic inputs. A cooperative-run feed program tests, sources, and delivers organic feed to farm members. Organic Valley has developed a Grower Pool that grows feed crops which supplies the feed program. Organic Valley also publishes a newsletter, *The Organic Trader*, through which members can buy and sell feed, cows, and farm equipment.

Farming

Dairy farming involves raising the cows, milking them, and cultivating pasture and other feed crops, such as grains and forage. Dairy farming is done by Organic Valley's member farms. The cooperative offers its members various forms of technical support in the production process. The relations between Organic Valley and its farmers are elaborated in a dedicated chapter.

Hauling

Picking up the milk from the farms and transporting it to milk processing plants. Organic Valley coordinates all the milk hauling, while contracting most of it to other companies.

Processing

Processing activities include pasteurization and manufacturing of dairy products such as fluid milk, cream, butter, cheese, and milk powder. Organic Valley owns one processing plant and outsources processing to nearly 100 others all over the U.S. Sometimes outputs from one plant can be transported into another as inputs. For instance, pasteurized cream that is the byproduct of fluid milk production can be used in another plant to make butter. Organic Valley coordinates processing across its network of plants. When Organic Valley sells bulk raw milk, the customer controls the value chain from the processing stage and on.

Marketing

Organic Valley's customers are food retailers (for branded and private label products) and food manufacturers (for ingredients). Relationships with customers are handled by Organic Valley's sales team and by brokerage companies that specialize in working with grocery retailers. Marketing activities also include the development of the brand.

Distribution

Products are distributed to customers' distribution centers or stores either directly from the plants, or through Organic Valley's distribution center in Cashton, Wisconsin. Organic Valley coordinates the distribution and contracts it to trucking companies.

Value Chain Governance

As a lead firm, Organic Valley is the nexus of relationships between value chain participants. The cooperative transacts directly with every firm in the chain from the farms to the customers, and faces the challenge of coordinating all these transactions. Accounts of contemporary producers relying on a vertically disintegrated value chain emphasize design and brand management as main core competences (Davis 2013). However, the task of coordinating multiple value chain transactions requires, at least in the case of Organic Valley, additional competences in information processing and in relationship management. Information processing involves activities such as projecting supply and demand, allocating available supply to multiple alternative products, allocating available products to customer orders, managing inventory, establishing milk hauling and product distribution routes, and translating allocation decisions to transactions with the cooperative's near 2,000 value chain partners. Chapter 5 elaborates on how Organic Valley uses such processes to maintain high and stable pay prices for its farmers.

In the introduction, I presented a view of transaction governance structures as open ended: combining various governance instruments to address multiple governance problems following a variety of possible calculations. The governance of virtually all the transactions between Organic Valley and its value chain partners includes at least these three governance instruments:

1. Contracts, specifying the terms of the transactions.
2. Standards, which codify transaction information and therefore transmit it explicitly and efficiently. Standards include, for example, specifications regarding communications, food safety, and the production and handling of organic food. Standards have different origins, including government regulations, industry conventions, and standards issued by Organic Valley.
3. A strong relational component, usually developed over the course of a long-term relationship. The importance of relationships and the relational component in transaction governance is discussed throughout the rest of this chapter.

PARTNERSHIPS AS A CONDITION FOR GROWTH AND INDEPENDENCE

Flexibility

Relying on the existing infrastructure in the dairy industry allowed Organic Valley to expand quickly and flexibly into new supply regions and new markets without the need to develop the infrastructure and invest the capital by itself. Major investment in a processing plant requires cooperatives to tailor their business strategy to protecting the investment and keeping the plant at maximum utilization. Organic Valley, by contrast, has been free to quickly respond to the farmers' needs and to market demand by producing diverse products in different regions. Mike Bedessem, Organic Valley's chief financial officer, estimated that in 2014 the cooperative was utilizing \$4 billion in processing assets in its supply chain, without having to invest the money itself. Of course, Organic Valley only used most of these processing assets in partial capacity.

Organic Valley's infrastructure requirements are especially high because of its geographic spread and product diversity. Justifying an investment in a dairy plant requires

high geographical density of milk production around the plant. Since there are fewer organic than conventional dairy farms, the geographical density of organic dairy production is usually too low to justify such investments. At the same time, Organic Valley's product diversity requires production in multiple facilities, some of which specialized in products such as blue cheese or aseptic milk.

In pieces of [the supply chain], we could own our own plant but instead we choose to work with others and invest in their facility. It's sustainable, it allows them to grow their facility, it allows us to work with experts in the field and not have to replicate, to duplicate that expertise. It allows us to change, so if there's a shift in the market and we really need to go to gallon jobs instead of half gallon paper, well, we can work with that within our realm of co-processors (Louise Hamstead, chief operating officer).

Supporting Rural Economies

Using the existing dairy infrastructure also has mission related reasons. Relying on existing infrastructure is related to sustainability:

In America, there is a lot of unutilized assets already out there throughout the country. I always look at it — part of our mission is, instead of . . . as far as sustainability, why look at some avenues and build new ones. There's good use to assets that are underutilized that you can help fill up and use also (Jeff Kragt, Interview).

Louise Hamstead, Organic Valley's COO, says that working with existing processing plants is part of the cooperative's effort to support rural economies.

Why did we build our office headquarters here in La Farge, population 770, you know? It defies things, but that's part of our commitment to the rural community. We work here in La Farge because of the rural community. Our investment in [Organic Valley's single own processing plant in] Chaseburg was because of the rural community. Our investment in [Organic Valley's distribution center in] Cashton was very cautiously a rural decision. We want to be in the country where we're supporting farmers and we're supporting the economies in those small towns because you can haul your milk out of the country and not support your economy. All you have then is open land and farmers, but you have no social networks in those communities. By being in La Farge or being in Cashton or being in Westby or Chaseburg, we're supporting that local community and the people that community builds. We're offering work for many in our presence there.

Industry Knowledge and Connections

Organic Valley relied on partnerships with the conventional food industry from an early stage, which served as a necessary source of knowledge and social capital that was necessary for the cooperative to become a large national company. This has been a self-reinforcing process — relationships in the industry gave Organic Valley legitimacy, which in turn helped establish more relationships. A relationship-based strategy also helped Organic Valley’s credibility by positioning it as complementary to rather than competing with existing dairy plants.

In terms of knowledge, partnerships have allowed Organic Valley to benefit from the expertise of partners with extensive knowledge and experience. The knowledge exchange works both ways, as Organic Valley has a dedicated team that helps new partners get organic certification and adjust their processes accordingly. The balance in the relationship has changed with Organic Valley’s growth: “25 years ago, [partner processing plants] were educating us, then 10 to 15 years, we’ve been trying to educate them” (Louise Hamstead).

In its early years, Organic Valley supplied milk to other companies who marketed organic dairy products under their own brands, which also served as an important source of learning. In 1992, it accepted an offer to supply skim milk to Natural Horizons, which soon after changed its name to Horizon Organic and become Organic Valley’s main competitor in the organic market. Organic Valley supplied skim milk for Horizon’s nationally distributed yogurt, and soon also to a new line of fluid milk that was launched in California. George Siemon commented on the partnership: “Horizons had money, they had knowledge, and, at the time, we knew we were going nowhere fast by ourselves” (cited in CROPP 2013a:85). Learning from that experience, Organic Valley decided in the following year to launch its own line of fluid milk in Baltimore. “Supplying Horizons got them launched nationally. It

also got us to say — ‘Hey, let’s do it ourselves.’” (Louis Hamstead, quoted in CROPP 2013a:85).

Eric Newman, VP of Sales, tells how the relationships Organic Valley develops with processing plants help the cooperative reach new customers:

Because we didn’t run our own plants and we co-packed [the term for outsourcing] everything, then we created relationships with all these different plants around the country. And those plants sometimes are owned by retailers or have direct primary relationships with retailers or other entities, and so through that, we were able to gain access and have information and knowledge about the entire industry in the U.S. . . . So when we go meet with customers, we can say . . . If you’re Wal-Mart, I go to Wal-Mart, I say, “Okay Wal-Mart, you’re national, we’re national, I can service you. What do you need? Okay. So you didn’t have any organic gallons here . . . I see that you’re bottling at Guida, because it’s on your plant code [each dairy product has a plant code on it], I bottle at Guida too. Why don’t we do a project here together and we’ll bottle organic milk for you here and use Guida as the shipper?” So that’s been very effective to have this network (Eric Newman, Interview)

The knowledge gained through relationships with the mainstream industry is essential for the ability of food marketers to expand to the national market. The food retail market is highly concentrated and dominated by large national chains. Such national chains develop their own distribution systems and have sophisticated ways of working with their suppliers.

For instance, when Organic Valley started selling to Wal-Mart in 2001, it was challenged to learn new techniques of inventory management and electronic payments, and develop new levels of logistical capabilities. "Wal-Mart educated us quite a bit. When they say on-time delivery, they'll knock you if you're there early!" (George Siemon, quoted in Pattison 2007). In another study I conducted, of the Wisconsin Food Hub Cooperative (WFHC), I learned about similar challenges. In its first year of operation, WFHC was supplying to a large regional grocery chain and faced many challenges meeting their requirements for smooth logistics, large volumes, and quick response time. In one instance,

WFHC was penalized \$400 for the truck being 17 minutes late. Such expenses can be very harsh for a new business with little working capital.

We can learn about the importance of industry knowledge, for example, by examining how food marketing companies deal with the particular cost structure involved in supplying national retailers. Industry observers have argued that this cost structure is a major barrier for small food suppliers:

Another challenge for smaller food producers and processors is the retailer fees that many large chains demand . . . For instance, \$50,000 would place one jar size of specialty pickles on the shelves at all four major grocery chains in Tampa, Florida. There are a whole range of "trade promotions" that manufacturers pay retailers, including slotting allowances (which are supposed to be for new product entry only), display fees, presentation fees, "pay-to-stay" fees, and failure fees.

Retailers argue that slotting fees are a way to manage risk and recover the costs of introducing a new product including labor time in redesigning the store, restocking, and reprogramming computers. On the other hand, some are concerned that these fees are simply an exercise of market power by retailers who have consolidated and adopted new technology. Fees can function as a mechanism for discrimination between large and small firms, and can also be a way to drive smaller competitors out of business, thereby undermining established distribution "channel" relationships and efficiencies. Certainly, regional dairy cooperatives found these fees problematic as the focus shifted to national brands (Hendrickson et al. 2001).

From Organic Valley's perspective, however, this has not been seen as a source of discrimination, but rather an issue of gaining the knowledge and capabilities that would allow the cooperative to work profitably under these conditions. Says Eric Newman, VP of Sales:

We were learning how much money do you have to reserve, to spend. So when you set a price, you have to build in a certain amount that you're going to spend for all sorts of different things. And over time, we got better in understanding how much we really needed to spend. So going in to the customers . . . included in the strategy, will be a whole set of parameters of what we're going to spend. Slotting fees. Little manufacturers are often very scared of slotting, like, "We can't afford that." And if you don't pay slotting, you can't get in . . .

In our direct budget, we have both the promotional on trade expenses and non-promotional. . . . Like if I spend 8% of the revenue, every dollar is eight cents on direct promotions. It's not all promotions. About half. About 4% is promotions and the other half is brokers, spoilage agreement, like, "I'll give you 1% and I don't have to protect you from spoilage. That's your responsibility for product if it runs out of code." So those expenses we're able to calculate and understand . . .

So we started putting everything in the metrics and numbers and percentages. It helps us make sense of the cost of entering a new market. I think a lot of the manufacturers that are small are scared of that. They don't know, one, how to calculate it. They're just scared. They think you can't afford it. But once you've looked at it, you can. Because if your products sells, it will pay for itself over and over again to slot the product (Eric Newman, Interview).

The Comparative Case of White Wave

Organic Valley's focus on relationships was one of the keys that allowed it to maintain its independence, because it provided it access to essential resources for its growth — processing and supply chain capacity, knowledge and industry connections. Lack of such resources has often been a barrier to the success of other organic companies. We can appreciate the importance of these resources for maintaining the independence of the cooperative through a comparison to White Wave, another successful mission-driven organic food company that got sold to Dean Foods, in order to gain access to the very resources that Organic Valley accessed through relationships.²

White Wave was started in 1977 by Steve Demos, an idealistic entrepreneur who conceived the idea for the company while making tofu during a 76-day Buddhist retreat. Demos's goal was to convert the world from animal- to plant-based proteins, and he was experimenting for years with a variety of soy products. White Wave's breakthrough came in

² This account is based on (Fromartz, 2007).

1996 with Silk, an organic soy drink that was marketed as a milk substitute. The wide success of the product was related to two innovations. First, it relied on a technological process that allowed the elimination of a beany flavor from the product through thermal processing similar to pasteurization. Second, White Wave was innovative in marketing the drink in the refrigerated dairy case, which helped position it as a milk substitute. In 1999, after the FDA approved a claim about the health benefits of soy protein, sales of soy products spiked. Silk was the highest selling soy product, and White Wave's sales rose from \$6 million in 1995 to \$300 million in 2003.

The innovations that drove Silk's success also made its supply chain very similar to that of fluid milk, from the processing stage and on. Despite the quick growth in revenues, White Wave lost much of its profits trying to manage the supply chain, and Demos "began to look for a dairy partner who would bring plants, distribution channels, and capital" (Fromartz 2007:182). This search resulted in the sale of White Wave to Dean Foods, partly in 1998, and then fully in 2002 (at which point Dean was owned by Suiza). At first, Gregg Engels, Dean's CEO, embraced Demos's idealism and saw it as an asset in leading the company and establishing it in the organic market. Not only did Demos remain on board to keep running White Wave, but in 2004 Dean bought Horizon Organics, Organic Valley's main national competitor in the organic dairy market, and added it to White Wave under Demos.

In a 2003 interview, Demos expressed his excitement about the opportunity to expand his mission and influence the way food business is being done — "That was the entire mission going all the way back to why we got into business — to influence the way the world works. Not only the way we eat, but the way we derive our livelihoods and exist in our culture. We'll end up with a billion dollar consumer packaged goods company based on

social responsibility! Unheard of!” (Quoted in Fromartz 2007:184). He was determined to also influence the way Dean does business and prove his way could win in the marketplace. “I said, ‘you know, we’re all about green.’ And Gregg said, ‘So am I. Mine just has dead presidents on it. And I said, ‘Well, I’m going to prove that my green makes your green grow.’”

However, in early 2005, Engels asked Demos to move into a symbolic, non-executive role, and when Demos refused, fired him. In the following months, other managers in White Wave left, and the company launched new products that were conventional instead of organic. According to Demos, the mission was “shot in the head” (Fromartz 2007:182). White Wave kept growing and buying other companies, including a 2013 purchase of Earthbound, the largest U.S. company of organic bagged salads. It became Dean/Suiza’s fastest growing unit and the largest seller of organic foods in the U.S. In 2012, White Wave was spun off as a separate company and Greg Engels left Dean/Suiza to manage it.

LEVERAGING THE MISSION IN VALUE CHAIN RELATONSHIPS

There a close connection between Organic Valley’s mission and the relational component in the governance of its value chain transactions. Strong relationships are used to support the mission, while at the same time as the mission strengthens many relationships. This connection between relationships and the mission is elaborated on throughout the dissertation. In this context, I will demonstrate how this connection operates in the conversion of value chain partners to organics and the relationships with processing plants.

Converting Value Chain Partners

The cooperative has been a leader in driving the growth of the organic dairy sector in the U.S., and therefore had to work closely with many value chain partners in the early stages of partnership and help them transition to farming, processing, transporting, or selling organic products. The two main constraints on the growth of the organic sector and of Organic Valley's business are the amounts of organic farm production and organic consumption. As a social movement organization, advocacy is a core strength for Organic Valley (see more about that in Chapter 8). Organic Valley uses its strong relationships to advocate to convert farmers, consumers, and other value chain partners to organic and expand the organic market. Mike Bedessem, chief financial officer, discusses how this goal informs the cooperative's relationship-based strategy:

What are we good at? We're good at talking to farmers, we're good at talking to consumers and we rent everything else in between . . . Organics, when it started, was another term, which is kind of like in the insurance industry — it's a concept sale. Why should you eat organic food? Why is it better? We spent all our time talking. Why is organic food better for you? Why should you support family farmers? And that's a concept sale, right? Because we had to change people's attitudes and let them know that there were other ways to produce food. That they had a choice as consumers but that meant: talking to consumers, talking to consumers [sic], talking to farmers about that they had a choice about how they farmed. They didn't have to maximize acres, maximize inputs, farm more acres, take those lower margins, you know, less margin and more acres just to try and earn a living (Mike Bedessem, Organic Valley's chief financial officer, Interview).

Other chapters look closely at Organic Valley's work with farmers and consumers. Yet, the cooperative also uses its relationships with other value chain partners to shape their work according to its mission. Maged Latif, director of Quality, Research and Development, notes how the mission drives such collaborative innovation:

If there is no organic ingredient, we work with supplier to make organic ingredients . . . annatto, a natural color. We were the first people to use organic annatto color, and I personally started to work with a supplier to get

organic annatto for almost three years. Challenge the supplier every time, because we go to expos, food expos where we'll meet suppliers there and I developed a good relationship with the supplier that I used to work with in the past. Then I keep challenging them and encourage them to come up with organic annatto, and they kept saying, "Okay, there is no market for it." I say, "No, you will have a market for it because every organic company has to use your ingredient if you come up with it because this is our rule." The rule is, if there is an organic alternative that can function the same, you have to use it, unless you prove that doesn't work for you.

So I was behind these folks, pushing them, pushing them, pushing them, and then they called me one time and said, "Okay, we got it" . . . They make it from annatto plants. The extraction method, they extract the color from the annatto . . . It is organic because it is grown in the wild or they grow it in Europe or other countries where they don't use pesticides, but the point is finding the method for extraction to comply with organic standards. They were able to do that.

We go beyond [organic]. We always look for sustainable packaging, we've been working with Tetra Pak [Organic Valley's milk packaging supplier], help reduce the gable top — the milk carton, to make sure that they work with city municipal or state municipal to have a recycle factory. They have been working on that for years now, and I believe they got almost to 50% or 60% of the cities to recycle that carton. Their goal is to get to a 100% within five to seven years. . . . We're working on a recycled piece for the carton, and also I'm not sure if you met Mitch or not, Mitch is the group leader for the packaging. He always looks for packages that's made of recycled material like our carton, butter carton. It's probably made 50% of recycled material, 50% of renewable material . . . We look for egg plastic, we make sure that it is recyclable material. We always look for . . . we have sustainability, it's part of our mission. Packaging is always on the look for any new technology there that improves the package, make it more recyclable.

Relationships with Processing Plants

The relational component is central in the governance of transactions with processing plants. Jeff Kragt, director of Dairy Production and Manufacturing, describes the process of forming a partnership with a new plant:

It's really our relationship with the people once we find the plant, really. What starts it is geographic area because we're looking "where do you have milk?" So you have to look at just that area. Where's your plant at? And pick the plant. But then you have to start talking with people on finding which ones you have a comfort level with working with. And then making sure they understand CROPP, CROPP's mission and who we're about before we start producing . . . Once we find plants, we don't switch, like run somewhere for a

year and then say, “Hey, this isn't good for both parties” and just switch because someone else is a little bit cheaper or someone else is 10 miles closer to somewhere. We try to form that good partnership and we're very upfront and honest. We're very competitive, but we don't push our plants to be running our products and not make money. So to run something at a loss isn't a good partnership [market?]. But we tell them also we can't run and overpay also.

Louise Hamstead, chief operating officer, also stressed the strong, long-term commitment in plant relationships:

We work pretty diligently at not being flighty, once we've started working with someone as a coprocessor, as long as we're producing good product, quality product to our specifications and they don't price themselves too high, we'll stay with them for a long time. The first bottling plant that bottled milk for us still process milk today. We have cheese plant relationships that go back 21, 22, 23 years. We don't just leave over a whim.

As noted above, Organic Valley plays a big role in educating its partners about organic processing. The procedures of organic processing are established in the regulation of the USDA mandated organic standards, and plants have to get certified by an accredited organic certifier that is also responsible for auditing them. However, the cooperative has a certification department that works closely with new value chain partners and helps them make the organic transition. Beth Unger, the head of the department, tells about this work:

Many of our plants are certified organic through Oregon Tilth [a certifier that works with Organic Valley] because they first came to organic processing through us, because we said, “Hey, would you be interested in processing for us? We will help you get certified organic” . . . So we work with the plant and explain to them what the regulations are; give them the information they need. We work with them to help them choose appropriate materials, specifically sanitizers, that comply with the regulations on the national list, or boiler chemicals and things like that. And so we work with them, and we help them with their application materials, and when they're processing only for us, we get them certified in partnership with us. So we pay for their certification course and help them with their certification needs. They may have to adjust what sanitizer they use, but their chemical supplier would already have that sanitizer available . . . you may have to make a few adjustments here and there, but that's very low cost, you know.

When I asked how plants handle transitions between conventional and organic processing, Unger said:

That is 205.272 in the standards, which speaks of contamination and comingling. So typically what plants do is — an average plant will do 10, maybe 15, 20% organic, and the rest is all conventional. So they'll run organic first round of the day, because they've had their cleaning procedure overnight, okay? And if they have a heavier load of organic production, maybe they're going to do organic on Monday, and . . . they'll have organic production days, okay? If they're put in a position where they have to do a conventional round and then on organic round, then they'll have specific operating procedures as to how they're going to clean the line in between.

Even when the plants set into regular processing, relationships remain important in maintaining product integrity and quality, in line with Organic Valley's mission:

Jeff Kragt: For the most part, I think, our plants that we're processing in, they definitely understand our mission. We talk with them every day. We don't own those plants, but we definitely communicate back and forth on what's going on, what issues they're expected to call us, let us know if we have late trucks or letting them know at a time. So we open up that communication thing. Then one of the things that the staff does and a little bit just beyond placing orders, shipping milk in, but they try to develop a good personal relationship. They're always talking about how many kids does the plant manager have or what are these kids up to and vice versa, so we form a relationship and a partnership with the people. And definitely, when you look at it, it helps us throughout all our processing plants.

The character of relationships with plants has changed over time, as the cooperative grew. In the early years, the relational component was stronger, serving to legitimate the cooperative's mission and help enhance its valuation by partners, to compensate for the small volume of business. However, as organic foods became more popular and the business matured, the significance of the relational component declined.

Originally, when I started, when I was calling plants to maybe produce organic products for us, I was more of a sales person. All right. I had to talk to them into dealing with it because organics wasn't as mainstream as this now and the volumes were much lower. So you'd had to walk them through the process and now it's kind of the opposite way. The volumes are much higher. It's in its business form and in organic is very stable in the market and now, most people understand it. So when we do make the phone call and start

talking with them about it, we definitely don't have to do the education part as much as you did before and talk people into it (Jeff Kragt).

There have been more recent relationships where we're trying to get into a product line where we might . . . there it's more businesslike, we're bringing in something to get done and we're just a customer. And then some of the older relationships, it's much deeper than that. Not only are we a customer, but we're a really good customer and we pay on time and we do things that we can try and help promote the facility and the quality of the facility. We have our own quality assurance team. We try to network with the processors, but that's changing. In 25 years, that's changing some. 25 years ago, they were educating us. Then 10 to 15 years, we've been trying to educate them and now we're into another level on another plane of processing, and some of the specialty items, and that is more businesslike for us (Louise Hamstead).

CONCLUSION

This chapter introduced Organic Valley's role as a lead firm in a mass market organic value chain. A relationship-based model has helped Organic Valley overcome capital scarcity and access knowledge and industry connections, allowing it to develop quickly and flexibly a national, diversified value chain. A relationship-based approach has also freed the cooperative from having to focus on operating production and transportation facilities, helping it focus instead on developing core competences that are needed to succeed as a contemporary mass market food marketer: product development, brand management, relationship management, and information processing. These core competences distinguish Organic Valley from other large dairy cooperatives, granting it more brand power and independence in representing farmers.

As a civil society organization, Organic Valley needs to apply its mission to a value chain that involves nearly 2,000 organizations that may or may not share its values. This chapter introduced the instruments that allow the cooperative to govern value chain transactions – contracts, standards, and strong relationships. Ensuring that transactions have a strong relational component is crucial because relationships are the medium through

which the mission “travels” throughout the value chain. Specifically, strong relationships help solve four mission-related governance problems: 1) convincing partners to convert to organics; 2) instructing partners in working organically; 3) producing “legitimacy premiums” that enhance partners’ valuation of the cooperative; and 4) fortifying the relationship against strains created by occasional gaps between Organic Valley’s and the market price. The following chapters will keep discussing the solution of these problems and the interplay between relationships and the mission.

In terms of theories of Global Value Chains, Organic Valley is exceptional in that it has established a producer-driven agri-food chain that features important characteristics of buyer-driven value chains. Organic Valley is the lead firm in its dairy value chain and has a high degree of control over all the activities from the on-farm production to the distribution to the retailers. It is a producer-driven value chain, in the sense that Organic Valley, the lead firm, is owned and controlled by the farmer-producers that supply it. Organic Valley is also tied to its supply base and involved in on-farm production to a much higher degree than most buyer-driven value chains. At the same time, the chain has most of the characteristics of contemporary buyer-driven value chains: the lead firm is the marketer, and its power over the value chain stems from the power of its brand and its connection with retailers and consumers. Like other lead marketers in buyer-driven value chains, Organic Valley outsources nearly all the production activities, while using standards and relational work to coordinate them.

Chapter 6: Maintaining High and Stable Prices

Chapter 2 argued that in order to be an agent of civil society in the market, a firm has to introduce into the market an autonomous civil society logic. Put differently, the firm has to be part of the market and yet maintain a degree of autonomy from it. In the case of Organic Valley, the realization of its vision of pasture-base, family-scale dairy farming depends on securing high and stable prices for its members' milk. Organic Valley, then, participates in the market in order to sell its farmers' products, while avoiding a key feature of the market – the determination of price by the balancing of supply and demand. This chapter shows how the cooperative leverages its position as a lead firm and the relational architecture of its value chain to accomplish this challenge.

PRICE DETERMINATION AS A BUSINESS FOCUS

Rational organizations are defined by the systematic pursuit of clear goals. Theories of the firm often include assumptions about firms' goals. For instance, neo-classical economics defines profit maximization as the goal of the firm. A firm's central goal determines a lot of its organizational strategies and activities. For example, the rise of an ideology that promoted shareholder value maximization as a goal for firms resulted in important changes in business strategies (Lazonick and O'sullivan 2000; Gibbon and Ponte 2005). Much of our theories about firms are based on assumptions about their maximization of profit or shareholder value. This chapter promotes an understanding of the possibility of firms to pursue different goals that are informed by social and environmental issues. Specifically, it shows how Organic Valley developed a business model that is focused on the maintenance of high and stable pay prices for its farmers' organic production.

In pursuit of this goal, Organic Valley runs at a minimum profit, normally with a target of 2.5%. The target pay price is determined annually as part of the budget planning with input from farmers and management, with the farmers' board of directors having the ultimate decision. The price considers the entire financial needs of farms, including reinvestment and the livelihood of farming families. This high and stable price sets Organic Valley apart from other dairy cooperatives, which have little influence over the commodity prices for conventional milk. At the time of shipment, conventional dairy farmers do not know what price they are going to get for their milk.

The maintenance of a farmers' determined price guides many of the cooperative strategic principles, and requires continuous management, since the balance of supply and demand is unstable and rarely aligns comfortably with the target price. At most times, Organic Valley is under stress in either direction (that is, supply is either too short or too long), and employees are acutely aware of that situation. The coordination of supply and demand involves the work of most of the cooperative's business units. Most importantly: the Pools unit, which handles the relationships with farmers, manages the supply management; the Sales unit handles the relationships with customers¹; and the Operations unit coordinates the use of milk supply and channels it to production. Over the years, Organic Valley's organic pay price has consistently remained higher and more stable than the commodity price for conventional milk.

As Organic Valley handles nearly half of the organic milk in the U.S., its high pay price increases and stabilizes pay prices in the entire market for organic milk (Guptill 2009;

¹ Consistently with CROPP's internal terminology, I refer to the "customers" as the firms that buy directly from the cooperative (mostly retailers, but also manufacturers that buy ingredients), and to the people who consume the products as "consumers."

Su and Cook 2015). The pursuit of price stability reflects a long-term orientation and often involves tradeoffs between short-term profits and this long-term goal. It reflects the belief that long-term price stability is crucial to the economic sustainability of family farms, as opposed to commodity prices that can be volatile and fluctuate between highs and lows. This belief is informed by the experience of farmers in agricultural commodity markets (such as conventional milk in the U.S.), in which periodical low prices have been driving many dairy farms out of business. Until 2004, Organic Valley's prices had marked the high end in the organic dairy market. In 2004, strong demand introduced for the first time a situation in which supply lagged behind demand, and at that point Organic Valley decided to play a stabilizing force and avoid bidding wars with competitors that lured farmers with higher prices. Since then, the cooperative is sometimes a little above and sometime a little below the market price. In a conversation, George Siemon indicated that they feel responsibility for the price stability in the entire organic market.

One of the key principles of Organic Valley is to adhere to the target price for organic milk that is established through its planning process, and the cooperative prides itself for never having sold below that price. A book that documents the history of the cooperative tells that when the first company that marketed Organic Valley's organic cheese suggested that a lower price could help boost sales, the answer from a cooperative member was: "I'll pour my milk down a rat hole first!" (CROPP 2013, p.60). If the cooperative cannot use all of its milk for organic sales, the strategy is to sell the surplus milk in the conventional market rather than reducing the organic price. Farmers' income reflects the blending of the target and the conventional prices. Normally, sales in the conventional market have little impact on the income of Organic Valley's farmers, since only a very small percentage of the milk ends up being sold in the conventional market. The cooperative's target is to utilize at least

98.5% of its milk as organic. The insistence on selling organic milk at target price serves the long-term goal of establishing high and stable prices for Organic Valley's products and in the entire organic market. The cooperative prioritizes this long-term goal over any opportunity to maximize profits in the short term.

Organic Valley's mission and business model make the cooperative especially vulnerable to changes in supply and demand. First, as a high premium brand within a high premium market niche, the sales of Organic Valley are particularly vulnerable to downturns. Second, the reliance on pasture-based dairy farming creates a seasonality in supply that is opposite to the seasonality in demand. "The seasonal demands for our products are like exact opposite of the supply curve . . . So the demand goes up in the winter and demand falls in the summer, but being a pasture-based dairy operation, our peak is in a summer, when [the cows] are out on pasture. So we struggle with balancing supply and demand every single year" (Jim Klousia, executive sales manager, Interview).

Finally, both supply and demand can change significantly from one year to another. For example, in 2013 Organic Valley had to make an abrupt shift in its orientation as the market condition changed quickly. The cooperative entered 2013 planning for large growth and invested heavily in new sales early in the year. However, bad crops across the U.S. significantly hurt its milk supply. Crops were scarce, expensive, and of poor quality, and compromised nutrition for the cows reduced milk production. The cooperative had to make a sharp shift in its orientation, and suddenly faced a situation in which it could not fill its customer orders.

BUFFERING MARKET PRESSURES THROUGH RELATIONSHIPS

Supply Management

From the side of farmers and the Pools business unit, which works with the farmers, the cooperative operates a Dairy Supply Management Program. The Dairy Pool Policy Manual declares that the “long-term supply management objective of the Cooperative is to match the quantity of the Membership’s products in the whole pool with the markets developed by the cooperative. The balance of supply and demand is a foundation issue which supports the Cooperative’s financial position and sustainable pay price” (CROPP Cooperative 2011:3-26).

The cooperative uses a quota system to control its aggregate supply and coordinate it with the production in each farm. Each farm member is assigned what is termed an Active Base, which is “the production figure for each calendar month that will be used as the baseline for the [Dairy Supply Management Program]” (CROPP Cooperative 2011:3-26). The active base is a tool for both the farm and the cooperative to plan their production with clear target quantities. The Active Base is determined annually for each member, based on its historical production, an annual production plan filled by the member, and the needs of the cooperative. During the annual budget planning, the target aggregate production and pay price are determined together, in consideration of long-term sales projections. Members are only guaranteed the target pay price for their Active Base, and if they exceed it, they receive conventional price for excess milk that cannot be utilized organically and is therefore sold as conventional. Organic Valley maintains a pool of non-member organic dairy farms that are used in rare cases to overcome temporary gaps in supply.

In addition to supply and demand in the entire market, local and regional conditions are considered in the determination of the Active Base. Milk is processed and distributed regionally as much as possible, to minimize transportation costs and carbon footprint. In some regions, regional production exceeds regional demand, while other regions have a milk deficit. These conditions are accounted for as the cooperative allocates production quotas. Another local consideration is the location of the milk processing plants in relation to the farms and the logistics of milk hauling. Milk hauling routes are designed to maximize utilization of the capacity of the milk tanks — typically around 45,000 lbs. — and quota allocation reflects this goal. Adding a milk hauling route requires a minimum amount of milk to be collected, and the ability of Organic Valley to incorporate a farm into its hauling routes is a condition to its addition to the cooperative.

The base pay price, which is determined in the annual planning process, has various adjustments to it that allow the cooperative to incentivize quality and quantity according to its needs and to accommodate regional diversity. Some adjustments are regional, reflecting regional variations in the cost of production and in the needs of the cooperative. In 2014, regional premiums were as high as \$4.5 per 100 lbs. of milk, about 15% above the 2014 average yearly price of \$29.29 with no regional premium. The cooperative also pays a seasonal winter premium, which was \$3 in 2016, because in the winter milk production drops while demand increases. Other price adjustments reflect milk quality. As in the conventional milk market, prices are adjusted according to milk quality indicators: somatic cell count, which reflects cows' health and the farm's sanitation conditions; protein rate, butterfat rate, and rates of other milk components. Organic Valley adjusts milk prices according to some additional quality tests to those prescribed by the regulations of the Federal Milk Marketing Orders.

Farm production and the needs of the cooperative are obviously dynamic, and Organic Valley has procedures that help planned production stay in tune with such changing conditions. The cooperative has an automatic adjustment process that updates the Active Base to reflect actual production, with consideration of the market conditions. For each month, a member's actual production and Active Base figures are used in a formula that determines the Active Base for the same month in the following year. This way, Active Base figures stay in tune with actual production during periods of farm growth or shrinkage, but are also not overly sensitive to years of unusual production. The weights that the formula assigns to actual production and the Active Base depend on the supply needs of the cooperative. When Organic Valley wishes to incentivize growth, the higher figure between the two will receive greater weight, and vice versa.

When a farmer wishes to grow production at a higher rate than enabled by the automatic adjustment procedure, he or she can use a second method of adjusting the Active Base, by appeal:

Now, on a situation where we have a farmer looking to make a significant expansion on his production, say over 10 to 15% above that monthly number or that annual number, we have an appeal process so that they can request—“Okay, I’m going to be making this amount of expansion, I’m putting myself at this amount of risk; you know, I don’t want to be sitting at 100,000 pounds of production with a 40,000 pound base. My two sons are coming back [to the farm], we are tripling the size of the herd.” So in that case, they have this appeal where once it’s approved by a farmer subcommittee, and then by our milk management team in the business . . . it gives the farmer a three year period to make that growth . . . We are growing as a co-op and we always have a very strong incentive to make sure that we’re answering the needs of the membership before we bring on new members, meaning, we’d always like these appeals to happen and give our members first chance at the co-op before we add on a new organic producer (Dan Mosgaller, Milk Supply and Policy manager, Interview).

The Dairy Supply Management Program is grounded in detailed formal procedures, but the cooperative staff works closely with the farmers to solve problems and accommodate

the needs and wishes of the members, such as finding organic outlets for excess milk, allowing members to increase (or decrease) their production capacity. The cooperative has Regional Pool managers — in 2014 there were 16 of them — who reside across the U.S. and maintain close involvement with local production issues.

The cooperative works to match the addition of new farm members to the growth of the market. This often requires holding off the addition of new members until markets have been secured. At the same time, since the transition of conventional land to organic takes three years, the cooperative needs to anticipate market growth and work in advance to secure the growth of its supply base. Organic Valley identifies and recruits potential dairy farmers who would be a good fit with the cooperative, and provides them with financial and technical support in the long and daunting process of converting from conventional to organic production.

Organic Valley has faced two periods of severe oversupply, in which its regular methods of coordinating supply and demand were insufficient. During that first period, in 2000, Organic Valley had its members vote on whether to reduce the pay price for milk for all farmers, or drop the farmers who most recently joined the farm pools. The members decided to reduce the collective pay price until demand eventually recovered.

In early 2009, the recession again suppressed the demand for organic dairy. The cooperative met this challenge by dropping its pay prices by 3.5%, and later also by introducing a quota system that guaranteed the organic price only for 93% of the Active Base of each member. The quota systems helped farmers plan their production according to the new market reality and distributed the financial losses among the farmers as equitably as possible.

The commitment to the pay price and these supply management strategies allowed the cooperative to maintain transparency about its prices to both suppliers and customers. This allowed Organic Valley to maintain the trust of its supply chain partners and resist pressures from buyers to cut special deals in periods of low demand. According to Barham (2010), Organic Valley's farmers suffered in 2009 a decline in revenues of about 10 percent, comparing to an average decline of over 40 percent for conventional dairy farmers¹. Both crises were handled using the cooperative's democratic governance mechanisms, and served to reinforce its mission and expand its repertoire of supply management strategies.

We have special rules which govern how a quota, or a supply management tool [that may be applied by CROPP in times of long supply] would affect that farm during that period so that they're not overly harmed from making that growth, you know because we do want our members to grow.

Eric Newman: "Organic has only so many farmers that are interested in the United States in being organic. The ones that were going to become organic, in the last 20 years, have become organic now. They've had the opportunity, they're working for us or selling milk to somebody else. So now when you grow, when you're billion dollars and a lot of volume and you even grow 5%, that's a big growth. That might be as much growth as you usually have back 10 years ago in a given year. So it's a lot to try and keep adding supplies."

Buffering Pressure from Customers

The efforts to maintain price stability have implications for Organic Valley's relationships with its customers, and the cooperative's salespeople need to maintain good relationships through market shifts between short and long supply. At least in theory, when

¹ Barham, Brad. "Price Stability in an Era of Roller-Coaster Rides." Status of Wisconsin Agriculture 2010—Framing the Financial Crisis (2010): 44-47.

the transaction between a buyer and a seller is governed by commodity markets, both parties are price takers, and price determination is outside the realm of the relationship. However, the transaction between large food marketers and retailers is governed in large part relationally, and prices are negotiated within these relationships. In that market, there is a small number of large suppliers and a small number of large buyers, and therefore a strong mutual dependence. Particularly, Organic Valley's insistence on price stability can create tensions in the relationship, since in times when supply is long, prices can be perceived by customers as too high, while when supply is short, Organic Valley cannot fill all of its customers' orders.

Organic Valley's sales force is charged with the task of managing customer relationships through continually changing supply and demand conditions. Their situation in doing so is sometimes referred to as a foot on the brake and a foot on the gas. These challenges are effectively demonstrated by this account from the 2009 Annual Meeting by Eric Newman, the cooperative's VP of Sales:

As we began 2013 . . . we had a lot of milk, a big budget [which is the sales target], and we were behind in our budget. We started pushing our foot on the gas, and then of course we came into a point where all of a sudden the milk supply dropped . . . and we started seeing shortages . . . As you remember, 2013 was a very difficult year . . . it was wet here in the Midwest, rain, and it destroyed hay crops, really poor quality crops. Of course we suffered through a draught through the rest of the country . . . As we got into 2014 we started—“Okay, where do we go here?” Because we started seeing we were going to be short on milk for the entire year, with really no hope of recovering. Because we were stimulating so much business, the market was growing rapidly, a lot of demand . . . So we started kind of rebuilding things briefly in 2014 . . . We had to heal some really broken relationships. And in the middle of 2014 too, we're doing one of the biggest launches [of new products] the company's ever had [of Organic Balance and Organic Fuel] . . . So here we're going out, shorting customers and launching this huge launch. So people were like—

“What are you doing???” . . . You know, we just can’t change things too rapidly².”

Figure 10: Milk shortage



Source: CROPP Cooperative

As this account indicates, the salespeople have to shift between very different modes of work. Periods of long supply stimulate sales efforts and often drive the expansion into new markets. “If you have too much milk supply and it’s going to be an extended period of time with too much milk and you can’t put all that away for inventory . . . so you’ll try to do whatever you can to go sell all the milk you can . . . We have to act like a bunch of young salespeople and go run out and sell it, sell it, sell it” (Eric Newman, Interview).

² Eric Newman, VP of Sales, from the 2016 Annual Meeting.

By contrast, during times the supply is short, salespeople stop working to bring new business and instead try to keep their customers happy at a time when they are unable to fulfill their expectations. Failure to do so can be consequential: “some [customers], after four or five weeks, so they basically said, ‘We can’t deal with this anymore. We’ve got to replace you.’ We lost a lot of business as a result of it. Or where in certain locations, we may have been the only organic milk on the shelf, they’ve now brought in one of our competitors to supplement us because of the uncertainty” (Jim Klausia).

Eric Newman (Annual Meeting 2016):

In the Southeast, at [name of customer], down in the Carolinas, they were very frustrated with us in 2013 with the shortages, and they discontinued a lot of our products. And I’ll never forget, I ran into the buyer, in January, February, at the Private Label Showdown in Chicago, their head buyer was there and . . . I was gonna go out and talk to him, kind of apologize and see what I can do, but he was sitting there and talking to Aurora Dairy about their private label milk and butter. And I was kind of “oh, boy!” [holding his head]. But, through the perseverance we got back in, and kudos to the Beth Petrillo gang [regional sales manager, Southeast], and [the customer] brought in a whole bunch of items, even 20 new SKUs [products], and we kind of recovered that relationship.

One key to handling these situations is a strategic emphasis on long-term partnerships with key customers, especially those in the natural foods sector. One of Organic Valley’s Foundation Principles states that “In limited supply situations we will limit our customers to those who have the best partnering history, best long term profit potential, and best strategic value.” (<https://www.farmers.coop/about-us/foundation-principles/>, 5/9/16). These priorities serve the cooperative’s ability to maintain its target prices, because such customers have either demonstrated that they will stick with the cooperatives through tough times, or they are likely to do so in the future because of their affinity to the cooperative’s mission. In other words, relationships with such customers have a better

potential of surviving during hard times without putting too much strain on the cooperative's prices. Jim Klousia (executive sales manager):

We have to be [selective]. We don't want to be, but we need to be. Otherwise, right now, we're shorting customers every single day. And we need to get to a point where our long-term strategic partners are serviced at the highest level. So we're going through that process now, to determine, who in that channel and all channels really, our long-term strategic partners are . . . Dennis O'Loughlin here is overseeing our natural channel. So this would be the Whole Foods, the co-ops of the world. This channel would be our core business model. We are aligned, mission-wise with the natural classic trade more than any other channel. So this is a really key business segment for us that we will remain eternally loyal to . . .

When sales and marketing people talk about customer relations, it often involves a tense co-existence between an instrumental logic and an emotional, relationship-oriented logic. Jim Klousia: "It's tough because you have to juggle. Am I going to let this customer go in order to continue to service these key partners? . . . It's difficult to ask our salesperson to basically – each of these relationships that they build . . . they have nurtured it. They've invested in it. They've done everything they can to make that relationship as good as it can be and then you're asking to walk away from them."

Organic Valley's salespeople repeatedly mentioned the honesty and transparency they have with customers as something that distinguishes their work from other companies. Such honesty and transparency is key in maintaining the relationships during times of short supply. Jim Klousia: "[Transparency is] what makes our sales organization unique. So we were very honest with our partners and that has served us well while we're struggling through our current supply constraints. Basically, if you are fully honest with the buyer and say, 'Look, this is the situation.'" He describes an example as he shows me a printed Excel sheet they handed to one their customers:

So we were approached by a key partner in the industry, probably, the most important partner in the industry for a project that they were exploring. And we not only said we'd be more than happy to help, but this is the level of detail

that we came back to them with, basically, fully transparent, with: here are our cost of goods on every item. Here are our basic margin requirements, and here is your price. I think a lot of other organizations would simply give them that bottom line and wouldn't reveal what they'd consider to be very secret and proprietary information. So when you show somebody your entire hand, like that, they trust that you're sharing accurate information.

Such transparent communication was the key strategy in dealing with the short supply crisis of 2013-2015. Eric Newman: “So we went through and we did a lot of communications, and we informed customers what was going on. The most important thing that I tell my staff is: ‘just let them know what’s going on, be honest, tell them the truth, and start educating them.’ We had to do a lot of education with customers about the process of bringing more dairy farms on, the process of bringing more eggs on.”

In 2004, the cooperative faced its worst undersupply crisis. Demand for organic dairy peaked after a mad cow disease scare, while milk production dropped after a poor crop of feed grain. For six months, supply was 20% short of the demand. After a period in which the cooperative was shorting all of its customers, it decided to cut some of the accounts, so it could better serve others. After long discussions, the management decided to favor Organic Valley’s core customer base, the natural food stores, which amounted to 45 percent of Organic Valley’s sales. The cooperative cut 15 out of 200 accounts, including Wal-Mart, which at its peak was Organic Valley’s third largest customer, accounting for 3.6% of fluid milk sales. This uncommon choice reflected loyalty to long partnerships with customers whose mission was seen as aligned with Organic Valley. While it tempered the cooperative’s ability to grow quickly in the mass market, the management believed that decision gave the cooperative the best odds for longevity.

TURNING COMPLEXITY INTO FLEXIBILITY

Market Diversity

On the marketing side, Organic Valley’s strategy from its early years has been based on diversity of products and sales channels, giving the cooperative various market outlets for utilizing its organic milk, and the ability to respond to changing market conditions by shifting the balance between alternative outlets. Currently, the cooperative’s range of products and market channels is unusual for a food company its size. Such a diversity would not make sense for a firm interested in maximizing shareholder value, and George Siemon mentioned in a conversation that this strategy defies the advice of business consultants who had repeatedly recommended that the cooperative take a more focused approach. In the 2014 Annual Report, Siemon referred to the complexity that this strategy creates: “We are moving farm products from 1,800 farms to 100 production plants that make 600 products for 400 customers — one of the most complex supply chains in the world.³” This complexity poses challenges, but supports Organic Valley’s mission by allowing it flexibility in responding to changing market conditions, through sophisticated balancing processes.

Organic Valley represents its marketing strategy as a three-legged stool (a metaphor based on a milking stool). Leg one of the stool includes branded and private label products. Branded products are the top priority, since they are the most profitable. Grocery chains market private label products under their own brand, and Organic Valley produces some of these private label products. Private label products typically have lower prices than Organic Valley products.

³ These numbers include non-dairy products.

The second leg of the stool includes processed ingredients for food manufacturers, which are often the by-products of the branded products. These, for example, include dry milk powder for Stonyfield yogurt and cheese for Annie's Homegrown Mac & Cheese. The cooperative provides most of the milk for Stonyfield, the leading U.S. marketer of organic yogurt, and has had a long-term partnership with it. As part of this partnership, the cooperative marketed in 2014 its milk and butter in the Northeast under the Stonyfield brand. The third leg of the stool is sales of bulk raw products, which in the dairy value chain is raw milk tankers.

While branded products provide the highest profit margin, other channels allow the cooperative to maintain its long-term price target in times when demand is lower. Shifting more milk to these lower-profit channels helps Organic Valley utilize its organic milk without reducing the price of branded products compromising the high-premium positioning of its brand.

Another main way to balance supply and demand is using inventory as a buffer from supply and demand fluctuations. When supply is long, the cooperative can build inventory, and when supply is short reduce it. Inventory management is one of the first lines of defense from market fluctuation, because it has no adverse effect on farmers, customers, or profits. Of course, this strategy can only be applied within certain limits. Since Organic Valley pays farmers within 21 days of shipment, building inventory requires financial strength and enough working capital to pay the farmers during times when there is more production than sales.

The ability to use this strategy relies on the cooperative's product diversity. In fact, there are few companies, organic or conventional, that provide a range of dairy products as wide as Organic Valley, including varieties of products in the categories of fluid milk, cream,

cultured dairy (yogurt, sour cream), cheese, butter, and protein drinks. Fluid milk and cream have the highest sales and are often the entry points of consumers to organic and to the Organic Valley brand. However, these products have relatively short shelf lives, and fluid milk also has low profit margins. Products with long shelf lives, such as aged cheese, milk powder, and shelf stable dairy products, give Organic Valley the most flexibility in managing inventory. UHT (Ultra-high temperature) pasteurized milk, which gives milk a shelf life of 70 days instead of 21, gives the cooperative some flexibility also in managing inventories of fluid milk.

Figure 11: Product diversity of the Organic Valley brand

Bringing the Good

Ultra Pasteurized Milk

- Whole
- Reduced Fat 2%
- Lowfat 1%
- Nonfat Skim
- Omega-3 Whole
- Omega-3 Reduced Fat 2%
- NEW! Lactose Free Whole
- Lactose Free Reduced Fat 2%
- Lactose Free Lowfat 1%
- Lactose Free Nonfat Skim
- Chocolate Reduced Fat 2%
- Heavy Whipping Cream
- Eggnog (seasonal)

Half & Half

- Original
- Hazelnut
- French Vanilla
- Lactose Free

Shelf-Stable Milk

- Whole
- Reduced Fat 2%
- Chocolate 2%
- Half & Half

Single Serves

- Whole White
- Lowfat 1% White
- Lowfat 1% Chocolate
- Lowfat 1% Strawberry
- Lowfat 1% Vanilla

Pasteurized Milk NEW!

- Whole
- Reduced Fat 2%
- Lowfat 1%
- Nonfat Skim

Regional Milk

- New York Fresh™
- Northwest
- California
- Midwest
- Rocky Mountain
- Southeast - Texas

Lowfat Buttermilk

Heavy Whipping Cream

Grassmilk™

- Whole
- Reduced Fat 2%
- Fat Free

Milk Protein Shakes

Organic Fuel

- Vanilla
- Chocolate

Organic Balance NEW!

- Vanilla Bean
- Dark Chocolate

Soy

- Original
- Chocolate
- Vanilla
- Unsweetened

Soy Creamers

- Original
- French Vanilla

Cultured Dairy

Sour Cream

- Regular
- Lowfat

Cottage Cheese

- Regular
- Lowfat

Ricotta Cheese

Cream Cheese

- Regular
- Neufchatel, Reduced Fat

Cheese

Deli Line Chunks

- Baby Swiss
- Cheddar, Raw Sharp
- Cheddar, Raw Mild
- Feta Mozzarella
- Muenster
- Pepper Jack
- Provolone
- Raw Wisconsin (Jack-Style)
- Kickapoo Blue - Blue Cheese Wedge

Stringles® Cheese

- Mozzarella String Cheese
- Mild Cheddar Cheese Sticks
- Colby Jack Cheese Sticks

Deli Line Slices

- Baby Swiss
- Cheddar, Mild
- Monterey Jack, Reduced Fat
- Muenster
- Provolone
- American Cheese Slices

Deli Line Cups

- Blue Cheese Crumbles
- Feta Crumbles
- Parmesan, Grated
- Parmesan, Shredded

Butter

- Butter, Salted
- Butter, Cultured Unsalted
- European Style Cultured Butter
- Pasture Butter, Cultured
- Salted
- Whipped Butter, Salted

Eggs

- Medium
- Large
- Large Omega-3
- Extra Large
- Extra Large Omega-3
- Jumbo

California Eggs

- Large
- Extra Large
- Large Omega-3
- Extra Large Omega-3

Produce

Seasonal and year-round availability, inquires, call 1-888-444-6455

Source: CROPP Cooperative

Organic Valley develops its products and sales channels with the goal of achieving full utilization of its milk and maintaining price stability. Cheese, cream, and butter provide especially high profit margins. In the 1990s, demand for high-fat dairy products declined as a consequence of consumers' health concerns, but in recent years this trend has reversed. These products require a lot of butterfat from the milk, and create the by-product of skim milk, which can be turned into dry non-fat milk powder. It takes 10 lbs. of milk to make 1 lb. of cheese, and 21 lbs. of milk to make 1 lb. of butter. The sales of ingredients and skim/low-fat fluid milk have a much lower profit margin, but they help gain revenues from these by-products. In 2014, Organic Valley launched and invested a lot in the marketing of two high protein drinks — Organic Balance and Organic Fuel. These products are shelf stable and they utilize a lot of skim milk and milk powder. They were developed as a strategic response to the challenge of developing value added products that would provide higher premium for the low-fat by-products that Organic Valley has excess of.

In 2014, Organic Valley placed an emphasis on increasing profitability throughout the organization. In the four previous years, sales increased by 78%, from \$523 million in 2009 to \$930 in 2013. With the efforts to accommodate that growth, less attention was paid to good business processes and high profitability. Since 2014 brought a shortage of milk and slower growth, it was seen as an opportunity to review the business processes and product mix in order to increase efficiency and profitability. Focusing Organic Valley's strategic priorities was especially important at that time of short supply, since such priorities were needed to guide the cooperative's decisions about how to use its limited milk supply. Products that did not achieve the profit goal were reviewed, and 80 percent of them were discontinued. Such work to improve profitability coupled with improving market conditions

allowed Organic Valley to increase its profits from 0.5% in 2013, to 1.5% in 2014, and to a record of 3.7% in 2015.

Perhaps more importantly, the work to increase profitability was key for Organic Valley's ability to deal with market conditions of sustained short supply, allowing it to significantly raise pay prices. From 2013 to 2015, Organic Valley faced three consecutive years of high attrition as supply in the entire U.S. dairy market was short and manufacturers raised pay prices in order to attract new farmers. Increased efficiency and product rationalization allowed the cooperative to limit attrition and recruit new farmers by raising average pay price from \$29.29 in 2013, to \$30.87 in 2014 and \$34.66 in 2015 (prices are per 100 lbs., for the Midwest).

Balancing Supply and Demand

The Operations unit coordinates the production and distribution process and manages how milk will be used, what products will be manufactured, and building or reduction of the inventory. In 2014, dairy production was coordinated throughout 90 processing plants across the U.S. Jeff Kragt, director of Dairy Production and Manufacturing, tells about this work:

Our department really takes the milk once it's picked up at the farm and we really decide what we're going to make the milk into; whether it's cheese, fluid milk, [non-fat dry milk powder], anything like that, we make sure it gets to the plant. We make sure they're making it into what we want them to and what label it goes into. And then follow all the way through the [Distribution Center], until it gets put on our truck to go to a customer. So we control the inventory and all those things that comes through here. So, really, we're making sure we use every bit of the farmer's products.

In terms of the cooperative's mission of maintaining a high and stable price, the work of the Production department is crucial for ensuring that as much as possible of the milk supply is utilized for organic production. "The toughest thing with what we really do across

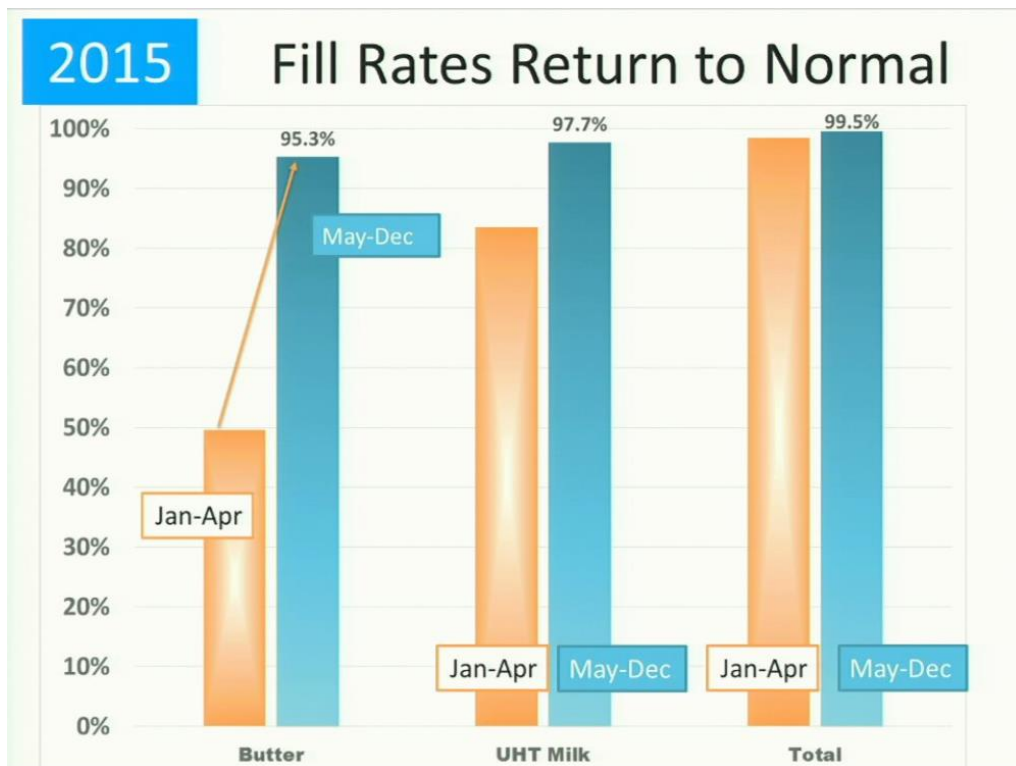
the board is, we're kind of a supply-driven organization. There's always so much milk coming off the farm. Your orders for cheese, your orders for fluid milk, and your orders for powders, they're not the same every week. So you're shuffling how much milk goes into each one of those categories. And then, of course, making sure everything is used." (Jeff Kragt). Louise Hamstead, chief operating officer, describes the information processing work that goes into balancing supply and demand:

Most of the supply chain that we balance, we balance by hand. We balance in Excel spreadsheets, we don't have a big computer system. We don't have one that solves for us and says here's the best way to do it . . . the balancing of the inventory and the product that comes off the farm. We look at all the inventories out of our ERP system and all the products and then we . . . from there we develop target inventories of where we want to go, largely being manually done in Excel spreadsheets, not in a computer system model. What that means is you're much more intimate with the details. That's good because you're really in the plants or engaged in all this really matters. It's bad because there's so many details that it's hard to keep your arms around it and that's a challenge for staff."

The performance of this unit is measured by two main measures that are related to the coordination of supply and demand. The first performance measure, Utilization Rate, is the percentage of milk that has been used for organic products. As indicated above, Organic Valley has a strict policy of never selling organic products below an organic price that the cooperative decides on. In the short term, when Organic Valley has more milk than it can sell for its target prices, excess milk is sold as conventional milk for the conventional commodity prices. This can happen either because the supply is higher than demand, or as a result of imperfections in operational processes. The target Utilization Rate is usually 98.5%, and in 2015 Organic Valley achieved a record Utilization Rate of 99.7%. "A lot of people in the production staff's almost been here since day one and they understand the value of making sure we utilize every drop of milk we can" (Jeff Kragt).

The second main performance measure is Fill Rate, which is the percentage of customer orders that the cooperative is able to fill. In times of short supply, Fill Rates go down, and the cooperative has to decide which orders to short⁴. Such decisions are complicated by the fact that customers in such periods anticipate the shorting of their orders and preemptively increase the ordered amounts. The cooperative tries to correct these figures to achieve realistic estimates of the actual supply. The following figure shows how fill rates for some dairy products changed as the cooperative moved from short to sufficient supply:

Figure 12: Fill rates of key products in 2015



Source: CROPP Cooperative

⁴ “Shorting” is the term of providing customers with amounts of products that fall short of the ordered amounts.

Strategic priorities about production are determined in regular Sales & Operations meetings with the participation of its top executives and key personnel from Sales & Operations. There are long-term planning meetings a few times a year, as well as monthly meetings to update short-term plans. Planning and production decisions are based on forecasts for both supply and demand. Supply is forecast based on the membership's Active Base figures from the Dairy Supply Management system. Demand is forecasted based on both external market data and internal data about customer orders. The cooperative has a team that specializes in demand analysis, and they produce forecasts for customer orders. Such forecasts not only help Organic Valley allocate its milk to different uses, but also help predict the effect of pricing and promotion decisions on demand. This cooperative has been working to improve its planning methods with the use of information technology and purchased market data, tools that are common to large consumer goods companies. Jeff Kragt (director of Dairy Production and Manufacturing):

So we have a meeting that we're involved with, the Sales & Operations planning meeting. And under that meeting we all get a little bit traction and a number of what we do is we're talking bigger numbers and that they will say, for the month we have 130 million pounds of milk is what we expect the pool of the farms this month. And of that 130 million, let's say, 50 million of that is going to go to our fluid milk plants to make some type of fluid milk . . . And then, we decide that maybe, we might take another 30,000 pounds and the other 30,000 pounds we're going to send to a cheese plant. And then we'll take the other what's left and decide that goes to powder, that goes to cottage cheese, that goes to cream cheese, and at the end of that meeting we have that 130 million balanced out, then I bring that back to my staff and say — "Okay. This is our plan moving forward. This is how we have to try to balance that, throughout each week." And at the end of the month, hopefully, we're pretty close to those numbers.

CONCLUSION

The chapter showed how Organic Valley leverages its position as a lead firm and the relational architecture of its value chain to realize the core of its mission, maintaining high

and stable prices for its farmers' milk. The cooperative buffers pressures resulting from supply and demand fluctuations using a combination of methods. Market pressures from farmers and customers are buffered by strong relationships and a farmers-governed supply management program. Product diversity gives the cooperative additional flexibility in handling market pressures, allowing it to channel its milk supply to a variety of market outlets with different shelf lives and profit margins.

Forgoing the maximization of profit and shareholder value allowed Organic Valley to tailor its business model to an alternative goal, maintaining farmer-determined prices. This accomplishment suggests that lead firms, using relational and technical tools, can leverage their position in value chains to undertake a key task that is typically performed by markets, the balancing of supply and demand (at least to some degree). This possibility invites a reconsideration of the role of lead firms in large value chains and their relationships to markets. The chapter demonstrates the power of lead firms to determine value distribution and manage risk and volatility in concentrated markets.

In the context of policy-related discussions, the case of Organic Valley shows that firms solve problems of economic regulation that are often undertaken by governments. The coordination of supply and demand in agricultural markets is often seen as a public good, the production of which requires government intervention. Examples include the Canadian dairy industry and subsidies for agricultural commodities in the U.S. However, the case also shows that the production of such public goods by markets and firms cannot be taken for granted. Rather, the outcomes of processes of value distribution and volatility management depend on the values and goals that guide the lead firms. In this case, the production of these public goods depended on the civil society governance over the value chain.

Chapter 7: Hybridization through Participatory Governance

How can a hybrid organization, combining at its core elements of civil society and business, reproduce its hybrid identity as it evolves? In nature, Clemens notes, “Hybridization is often unsuccessful and, when accomplished, the offspring are frequently sterile. Among organizations, novel forms face similarly bleak prospects” (2002:397). I reviewed some of these challenges in the Introduction, and demonstrated their relevance to agricultural cooperatives in Chapter 4. As they evolve, organizations that combine social with commercial values and goals are vulnerable to tensions between their competing commitments. Here, I focus on three ways in which such tensions can lead to failed hybridization, resulting either in organizational death or weakening of the organization’s social goals.

First, hybrid organizations are vulnerable to loss of their hybridity due to pressures of mimetic isomorphism. When the goals of an organization significantly diverge from those of its organizational environment, as is the case for Organic Valley in certain respects, organizational models suitable for the pursuit of such goals can be scarce. DiMaggio and Powell theorize that under conditions of uncertainty and goal ambiguity, “organizations may model themselves on other organizations” (1983:151). However, “despite considerable search for diversity there is relatively little variation to be selected from. New organizations are modeled upon old ones throughout the economy, and managers actively seek models upon which to build” (DiMaggio and Powell 1983:151-2). For example, McInerney (2014) shows how NPower, a social enterprise providing technology assistance for nonprofits, was designed using borrowed elements from available models provided by other organizations. Many of these elements introduced to the organization market logic, including “charging

fees for services, adopting the language of professional consultants, developing market metrics, and collaborating with for-profit corporations” (McInerney 2014:93). Such adopted organizational features promoted commercial goals at the expense of social ones and eroded some of the values that had inspired the movement that advanced technology in the nonprofit sector. While there is nothing unusual about organizational change through recombination of elements from the institutional environment (Herrigel 2010, Stark 1996), quick and effective tailoring of such elements to the pursuit of new goals requires high innovative capacity. Thus, when an organization with unique goals faces uncertainty and ambiguity, the reproduction of its hybridity depends on an ability to generate organizational innovations that would allow it to meet its goals. Barring such a capacity, the organization would either fail to adapt or succumb to isomorphic pressures.

A second threat to the reproduction of hybridity is the erosion of aspects of the organizational identity by pragmatic compromises between competing value commitments. When tensions between such commitments arise in connection with practical problems, organizations need to commensurate between these conflicting values in practice, often by compromising one or more of these values. While such compromises do not in themselves undermine the hybrid identity, they involve the risk of institutionalizing the compromise or being interpreted as renunciation of the compromised values. In NPower’s case, argues McInerney, the adoption of market metrics had the effect of institutionalizing accounts of the value of technology for nonprofits in terms of efficiency and effectiveness, while undermining accounts of worth that emphasized social and environmental justice. The ability of hybrid organizations to maintain their identity, thus, depends on their ability to reproduce value commitments even as these commitments may be occasionally compromised due to pragmatic considerations.

Chapter 4 suggests a third threat to the reproduction of hybrid identity, specifically in cooperatives – the opening of a rift between farmers and management. Identities imply a boundary between those on the inside of the identified entity and those outside it; us and them (Tilly and Tarrow 2015, Zelizer and Tilly 2008). In the case of agricultural cooperatives, there is ambiguity about who is inside and who is outside, with both farmers and employees as potential insiders who may or may not identify themselves with the cooperative. In Chapter 4, we saw that at the entrepreneurial stages of cooperatives, members typically lead the way. However, as cooperatives grow and mature, they tend to get bureaucratized and professionalized, and the influence over the organization can shift to employees, particularly the management. In this sense, the reproduction of the cooperative as a civil society organization depends on the cultivation of a strong sense of identity that is shared by both farmers and employees, and includes the cooperative’s values and goals. The sense of shared identity is vulnerable to the alienation of members from management as a result of decisions that are perceived as illegitimate. Members may also withdraw from involvement and feel alienated because they “perceive the cooperative to be so large and complex that they have difficulties understanding the operations” (Nilsson et al. 2009; see also Gray 2009). Therefore, in order to reproduce a shared cooperative identity, management’s decisions need to be both understood and seen as legitimate by the membership.

In this chapter, I argue that these hybridization challenges can be overcome through participatory governance processes. By analyzing how challenges to Organic Valley’s hybrid identity were handled through the cooperative’s governance institutions, I show how such participatory, deliberative processes allowed it to reproduce and develop its identity as it grew to become a national, mass market cooperative.

PARTICIPATORY GOVERNANCE IN ACTION

As Chapter 2 showed, farmers are highly involved in two aspects of the cooperative – price determination and the supply management program that supports it, and policies for on-farm production. These issues are central in the relationship between the cooperative and its members. Farmers participate in governance through annual meetings, the board of directors, sectoral executive committees, and board committees that are dedicated to specific issues. In this Chapter, I analyze the ability of Organic Valley’s participatory governance institutions to overcome challenges to the reproduction of its hybrid identity by examining how these institutions handled key challenges as the cooperative grew to the mass market. Specifically, I analyzed the period between November 1994, when discussions began on formalizing guidelines for milk supply management, and October 2000, when an updated policy was published in response to challenges of handling excess supply. During this time, Organic Valley turned from a small, regional cooperative that provided mostly to the natural foods market to a national leader in organic dairy. The fast growth created challenges that put at risk the reproduction of the cooperative’s hybrid identity. The table below shows this growth:

Table 7: Organic Valley's growth 1995-2000

	1995	1996	1997	1998	1999	2000
Number of Organic Valley members (all pools)	100	119	160	194	224	295
Total sales (in millions)	\$9	\$13	\$20	\$28	\$46	\$75
Number of states with members	4	6	9	9	10	12
Total farmer payments (in millions)	N/A	\$8.6	\$12.6	\$16.3	\$23.8	N/A
Average pay price – Midwest	\$15.60	\$16.10	\$16.85	\$17.10	\$17.35	N/A
Average pay price – Northwest	\$16.60	\$17.10	\$17.85	\$18.10	\$18.35	N/A
Average pay price – Maine	-	-	\$21.00	\$21.00	\$21.00	N/A
Average pay price – California	-	-	\$18.10	\$18.10	\$18.10	N/A
Average pay price – Pennsylvania	-	-	\$18.75	\$18.75	\$18.75	N/A
Average pay price – Vermont	-	-	-	\$20.75	\$20.75	N/A

Source: Letter to CROPP dairy farmers from Jim Miller, Board President from 07/27/00.

The analysis is based on three sets of meeting minutes: Dairy Executive Committee (D.E.C.), the Dairy Pool and the board of directors¹. In total, there are minutes of 143 meetings – 31 of the D.E.C., 45 of the Dairy Pool, and 68 of the board. I identified two sets of key issues, which were triggered by practical problems and generated conflict between competing commitments of the cooperative: the development of oversupply policy and the financing the cooperative's fast growth. My analysis focused on tensions that arose in the discussion of these issues, threats that were posed to the reproduction of Organic Valley's hybrid identity, and how the handling of these issues the impacted such reproduction.

¹ The D.E.C. was established in 1995 with the addition in 1994 of the first dairy pools outside Wisconsin – in Iowa and Minnesota. Until 1994, dairy pool members lived around La Farge and many of them would regularly meet with staff in person to discuss dairy pool issues. Until 2000 D.E.C. and Dairy Pool meetings were typically held one after the other with the same participants.

Supply Management Policy

Discussions on a formal supply management policy were prompted by the challenges of matching supply and demand during fast growth. In its first few years, the milk pool struggled, and a large share of the milk was sold in the conventional market due to lack of demand. However, in 1993, for the first time all of Organic Valley's skim milk was sold for the organic prices, and growing demand for organics allowed for a higher price². That year started a steady increase in demand for organic dairy products that drove the cooperative's growth. In 1994, Organic Valley doubled the number of its dairy farmers from 24 to 48, adding for the first time members from new regions – Minnesota, Iowa, and other parts of Wisconsin³. Minutes of a dairy pool meeting from November, 1994 noted:

Milk Procurement at the moment has been stalled. We have grown from 10,000 hundred weights [100 lbs.] of milk per month to 24,500 hundred weights of milk per month. This is a rate of 2.5 times for the past year. It is time to stop and catch our breath. At the moment CROPP is selling milk on the conventional market. Louise [Hemstead, Chief Operation Officer] also reported that at the last board meeting, the board recognized that we may have to lower the pay price⁴.

The addition of new members was coupled with an expansion of production capacity by many farms. Fast growth created challenges of matching supply and demand and highlighted the need for a systematic, reliable way of doing so. In a December meeting with nearly 30 participants, an initial proposal was introduced to the Dairy Pool about Milk Supply Management Guidelines. For nearly a year and a half, until an official policy reached a stable form in April, 1996, Organic Valley's supply management policy evolved through discussions in every meeting of the dairy pool and the newly established D.E.C.

² CROPP (2013a:94).

³ CROPP (2013a:75, 95).

⁴ Minutes of a Dairy Pool meeting from November, 1994.

The most urgent problem Organic Valley faced in late 1994 and early 1995 was handling excess supply, which coincided with the scheduled addition of new dairy farms to the cooperative. On the one hand, paying everyone the target pay price would jeopardize the cooperative's financial position, since a significant share of the milk had to be sold in the conventional market. On the other hand, the business was overall very successful, with almost \$4 of organic premium in 1994, and it was clear that adding new farmers was needed to meet the growing demand in the long term. In 1995, a Washington State pool was added, which was strategically important for entering the Northwest market. The minutes from the Dairy Pool meeting in December 1994 state: "We are at a 'Y' in the road where we have too much milk but the business is doing excellent." This oversupply episode would regularly repeat throughout the Organic Valley's continued growth. During the time period analyzed here, similar situations of significant oversupply also occurred in 1998 and 2000.

The situation involved tensions between competing goals and commitments of Organic Valley, risking both its viability and hybrid character. First, it forced members to prioritize between the financial soundness of the cooperative and that of its members. The former necessitated keeping payments to farmers within the limits of the revenues, while the latter required ensuring that farmers could meet their costs of production. A second tension was between solidarity of the entire cooperative and commitment to particular groups of farmers. Third, discussions brought up tensions between the privileges of older farmers, who had over the years made greater investment and taken greater risk for the development of the cooperative, and the needs of newer farmers, who had often invested in transitioning to organic production based on the cooperative's commitment to market their milk.

As the theoretical discussions suggested, the tension between the financial soundness of the cooperative and that of the members introduced conflict between the mission and organizational survival. The other two tensions pitted against each other competing value commitments that were inherent in Organic Valley's hybrid identity. In order to maintain its hybridity the cooperative needed to find ways to maintain its viability throughout periods of excessive supply without renouncing its core commitments. Renouncing such commitments, or even a perception of such renunciation, could alienate farmer members and delegitimize the cooperative in their view. Handling the challenge without sufficient legitimacy from farmers could also create a rift between farmers and management, whose unity is essential for the cooperative's identity.

Throughout the discussions on oversupply policy between 12/1994 and 10/2000, members' decisions consistently expressed commitment to prioritizing the financial soundness of the cooperative and limiting payments to farmers. For instance, D.E.C. minutes from August 1995 stated that "We need to clarify and stand by a supply policy no matter what. Selling milk conventionally and paying organic premium does not work." Such a decision reflected a recognition on the part of farmers that the organizational survival of Organic Valley was also a condition for their own long-term viability. It also reflected trust in the ability of the cooperative and the willingness of its management to take care of farmers' interests in the long term.

Supply management problems instantiated the challenges to the reproduction of hybridity that were presented in the introduction to this chapter. One plausible consequence of the decision to prioritize the cooperative's financial soundness could have been alienation of members (or a group of them) from the cooperative and/or a rupture between farmers and the management. Instead, farmers worked closely with the management and were

deeply involved in handling the oversupply challenge, and thus grew confident in their ability to monitor important decisions. Such involvement fostered trust between farmers and management and granted legitimacy for the tough decisions that sometimes had painful consequences for members.

Over time, Organic Valley experimented with various combinations of methods of handling oversupply, with the board mostly letting the D.E.C. decide on the subject. In 1995, the D.E.C. considered several methods of dealing with oversupply: following the “last on, first off” policy, and dropping farmers who last joined the cooperative; reducing pay price equally for the entire membership; pay two different prices: the target price for some members, and a lower price to others; and delay the addition of new farmers to a later date than originally committed. At any point, immediate decisions were made about supply management measures, but lively debates between farmers and management continued monthly that involved reflection on the consequences of past measures. Members explored the implications of these policies and sought to improve and refine supply management methods. For instance, we can learn about such efforts from the D.E.C. minutes from June 1995:

Oversupply Policy [emphasis in the source]: At the last DEC meeting, we decided to go no lower than \$15.60, then implement the \$2 under? [sic; the question mark indicates questioning of that decision]. A report was handed out as to the difference between lowering [new] farmers down \$1 or \$2 vs lowering the whole pool. *Different options [are] enclosed [in the minutes distributed to the members]. The effect of lowering \$1 and \$2 is shown. Dropping farmers off [the milk truck] cannot be hidden [and would therefore impact Organic Valley’s reputation]. [It is] Always a possibility. [Should we] Cut [the price for the] whole [dairy] program and tough [it] out instead of penalizing the last farmers [to join the co-op] just as when the program began with only seven producers? [We] Should be able to maintain \$15.60, but may have to go lower. How long do we tough it out. [sic] **Motion:** [We will reduce the price for everyone] No lower than \$15 and then drop [new] producers \$2 under [that pay price], seconded [by] George. Discussion – How long can we change policy? Should we have a money limit? [We should] Tough it out as

long as possible. [We] Can always change or revisit. [Votes:] Favor 10, No, 2. [Motion accepted]⁵.

These minutes show how much these discussions, and their minutes which were sent to members, let questions remain open and invited different views instead of quickly deciding on easy solutions. Farmers were not simply asked to put their stamp on management's decisions, but were deeply involved in the exploration of possibilities and arbitrating among them. The minutes, with the enclosed reports on the effects of different price reductions, also demonstrate the dynamics between the D.E.C. and the staff, with the staff presenting alternatives and careful analyses of their implications, in order to empower members in making informed decisions. The thickness of interactions in those meetings between farmers and staff allowed for close mutual monitoring, and therefore facilitates trust and legitimacy of the final decisions.

When controversial decisions were being discussed, Organic Valley's leaders often turned to the membership to solicit input and participation. For instance, a letter from March 1998 updated members on the cooperative's oversupply situation, ending with an encouragement to be involved in shaping related policies:

As the owners of CROPP/Organic Valley you determine the policy and the course of our cooperative. The Dairy Pool sets the policy which guide [sic] how we manage these oversupply situations, which is really what makes CROPP the vibrant cooperative it is. At present we are proposing to pay \$2.00 over [National Farmers Organization conventional milk] price to 22 farmers, who have never been affected by oversupply policy, for the time period of April 1-July 1, 1998. This means a pay price of an estimated \$15.00 compared to our \$17.10 to the balance of the producers. These actions are taken to insure that we pay our planned pay price through out [sic] the year which averages \$17.10. At the last meeting the Dairy Pool discussed alternative ways to deal with oversupply situations and set the date of August 1 to have completed explorations of alternative methods and to have a new policy if one is agreed upon. The D.E.C. is being firm in implementation of their policy.

⁵ Minutes of D.E.C. meeting from June 1995.

The D.E.C. process is the farmers solving the problems which are pool related. You need to be involved so as to understand their decisions. CROPP is dedicated to an open process and to making the member farmers face the reality of what it takes to market our farm production.⁶

The italicized quotes are indicative of cooperative's reflexivity with regard to the involvement of members. These observation that farmers' self-governance is "what makes CROPP the vibrant cooperative it is" expresses awareness of the connection between participation and organizational identity. It also shows that farmers' involvement in handling supply management challenges was not simply seen as means to the end of solving the immediate problem, but was also regarded as an opportunity to build farmers' understanding "of the reality of what it takes to market our farm production." Such understanding was important for the ability of the membership to appreciate the complexity of Organic Valley's dilemmas, and thus accept the necessity of the pragmatic compromises it needed to make. In addition, cultivating farmers' understanding of the cooperative's operation was an investment in building their capabilities for future problem solving.

Another plausible consequence of the conflict could have been that favoring some value commitments over others in decisions would undermine the commitments that were compromised. When deciding on price reduction, for instance, the cooperative had to choose between options that reflected different interpretations of fairness and equality. Reducing prices equally to everyone represented commitment to solidarity of all farmer members; reducing prices only to newer farmers represented commitment to older farmers who had suffered lower prices and taken greater risk over the years; and protecting newly added farmers represented commitment to new farmers who were more vulnerable and who

⁶ Letter from CROPP to dairy farmers, 03/23/1998.

had often invested in transitioning to organic in order to join Organic Valley. Commitments to all of these interpretations of fairness were expressed in discussions of the situation, and at various points in time informed decisions. When a consensus over one of these interpretations failed to emerge, the tension between these value commitments was maintained and acknowledged, and decisions were regularly revisited.

The general supply management policy that was created in these discussions elaborated multiple lines of actions as possible, leaving the actual decisions in concrete situations to the discretion of the D.E.C. and the board. In the short term, this maintained the flexibility of the cooperative in responding to circumstances, while in the long term, it facilitated continued assessment, debate, and development of the policies until a more stable consensus had been reached. Over time, the emphasis shifted toward the commitment to solidarity of all members and the respective policy of a uniform pay cut for all farmers. The option to lower prices for part of the membership was removed as a policy option, while the measure of removing from the milk truck recently joined members remained but was seldom used.

Throughout the debate, discussions in meetings and communications to members held the tension between competing commitments and acknowledged the imperfection of their reconciliation. For example, board of directors meeting minutes from June 1995 noted:

We are going into a difficult year over-supplied with product. [The] \$2.00 under strategy [pay price reduction or new members] won't generate as much money [to the cooperative] as \$.10/[100 lbs.] down for everyone... this is a political issue. *Dropping the pay price is ugly, \$2.00 under is ugly* [my emphasis], do we just stick it out together? [This is a] Dairy Pool issue [that is, the board chose not to intervene].

In another example, D.E.C. minutes from August 1995 highlighted the shortcomings of its previous decision: “With the \$2.00 drop, CROPP broke even in July, but the farmers lost

money.” Such acknowledgement of the sacrifices that resulted from tough decisions reinforced the value commitments that were compromised rather than undermining them. Holding the tension and admitting imperfections allowed the cooperative to maintain a rich, complex identity that reflected the diverse values held by its membership and staff. A permanent, premature decision in favor of one interpretation of fairness could have alienated and excluded those who disagreed with the cooperative’s decisions, and eliminated important aspects of Organic Valley’s hybrid identity. Instead, the cooperative sustained engagement of participants with different views and maintained broad inclusion.

A third way in which participatory, deliberative governance institutions allowed Organic Valley to maintain a hybrid identity throughout its growth is by facilitating organizational learning. Conflicts between competing value commitments were not simply solved by trading off one commitment for another. Rather, to an extent, conflicts were mitigated by developing innovative supply management solutions that effectively eliminated much of the problem. For example, discussions of handling oversupply induced the development of Organic Valley’s quota system, which helped project, control, and coordinate the production of farmers with market demand. The first reference to the need to develop such a system appears in D.E.C. minutes from June 1995, in response to the problem of members increasing their production during a time of excessive supply:

[Should we allow] 10% [yearly] increase? [Shall we] Try to limit producers’ growth? Can we declare to not allow growth on individual farms? [We should] Contact producers that are going over their 10% growth limit and make it known they cannot go over 10%. We need to limit milk growth among our current producers. George [Siemon] is researching a base or quota system for us to consider.

This example shows another conflict of value commitments – this time between the cooperative’s ability to coordinate production versus its need to respect the autonomy of its farmers. This conflict was eventually resolved by developing a quota system that indeed

gave Organic Valley the power to coordinate the production of its farmers, but subjected the allocation of milk quotas to the self-governance of Dairy Pool members. Guidelines for allocation of the base, that is the milk production quota, were established by the D.E.C., which also had the authority to decide about members' appeals to change their base. Discussion of such requests was often the first item on the agenda of the D.E.C. in the following years.

An initial proposal for a quota system was introduced in the following D.E.C. meeting (July, 1995) and preliminarily approved a month later as part of the first version of the Dairy Pool supply management policies. These policies were continuously reviewed and discussed, and in the process, policy proposals and updates about open questions were sent to the members for their assessment. In April 1996, the D.E.C. reached a consensus about a version of the document, which was approved in the following month by the board (except for the controversial section permitting a \$2.00 pay price reduction for new producers). Afterwards, policies were often reviewed and updated in response to practical issues.

The new quota system allowed the cooperative to better project and control its aggregate supply, and thus helped mitigate problems of excessive supply. Through processes of reflection, deliberation, and creative problem solving, this system grew increasingly refined and effective over the years, and its 2011 version is presented in Chapter 6.

Financing Growth

Early in 1998, Organic Valley launched the first organic ultra-pasteurized milk in the U.S., with shelf life of 70 days instead of 21 (CROPP 2013a:122). Dairy Pool minutes from March 1998 note that "So far, it has been slow." However, national grocery retailers were drawn by the new product's longer shelf life, and very soon it became a hit that drove the

cooperative's expansion to the mass market. Soon, ultra-pasteurized milk represented over half of Organic Valley branded product sales, spearheading a 66% growth in 1999⁷. The cooperative started 1998 with 160 farmers, and by August 2000 had added over 100⁸. These changes were not simply quantitative, but also fundamentally altered Organic Valley's business environment. "In the last few years," noted Board President Jim Miller in August 2000, "our business has transformed into one that is dominated by mass market sales. Marketing estimates that 65% of our Organic Valley sales are now to mass market (compared to 90% natural market sales a few short years ago)⁹." The accelerated growth brought with it a series of challenges that threatened Organic Valley's hybrid identity and spurred learning and refinement of the cooperative's capabilities of maintaining its target pay price. Most of these challenges revolved around the need to solve short-term capital shortage while maintaining Organic Valley's long-term, mission-related goals.

A common solution for companies at this stage is selling controlling stock to outside investors in order to finance growth. Meetings in 1998 and 2000 discussed such offers from Organic Valley's largest competitor, Horizon, to buy the cooperative. Another investment offer was discussed from an established conventional cooperative¹⁰. In 2013, the cooperative documented this dilemma:

Mike Bedessem, CROPP's CFO, remembers. "For all the phenomenal growth, it's hard to run a business that grows that fast while still remaining independent . . . It seemed that every other year we were receiving an offer and we always said, 'No Thanks.'"

⁷ (CROPP 2013a:122).

⁸ Letter to CROPP dairy farmers from Jim Miller, Board President from 07/27/00; Letter to CROPP farmers from Jim Miller, Board President from 08/31/00.

⁹ Letter to CROPP farmers from Jim Miller, Board President from 08/31/00.

¹⁰ Minutes of meetings of the board of directors from 10/1998, 8/2000, D.E.C. from 10/1998.

But one of those years in the late 1990s, CROPP's leadership *did* consider an offer from Horizon. On the plus side, if CROPP sold, it would be owned by a larger entity with deeper pockets and more access to capital. The farmer-members, investors and management team would earn a handsome return and the farmers would also be assured of a long-term contract for their production . . .

After days of discussion, CROPP's management team went around the table considering Horizon's offer. One by one, each person spoke. 'I'm not interested,' was repeated over and over, says Bedessem. CROPP's Board of Directors backed the management team's recommendation and talk of selling was never seriously discussed again¹¹.

The decision to remain independent necessitated alternative sources of capital. Capital needs grew as the cooperative was learning to use inventory as an instrument of coordinating supply and demand. The lesson was learned when in early 1999 Organic Valley faced a severe milk shortage, not long after a 1998 oversupply that triggered sales in the conventional market, price reductions, and temporary removal of farmers from the organic truck. In April 1999, the board decided to double its inventory target in order to reduce conventional sales and support growth¹². This strategy gave the cooperative more flexibility in handling oversupply and proved successful in the long term (see Chapter 6). In the short term, however, it exacerbated Organic Valley's capital scarcity, because of the need to finance a larger inventory (which includes products the cooperative paid for but had not yet sold). This problem became acute when in 2000 milk shortage turned again into oversupply, resulting in inventory buildup that by May that year progressed faster than anticipated¹³.

¹¹ (CROPP 2013a:122).

¹² Board of directors minutes from April and May 1999.

¹³ Board of directors minutes from May 2000.

The problem was addressed through a combination of measures. On the one hand, in discussion of solutions to the financial difficulties George Siemon “reminded the farmers of the Y in the road concept of the dairy pool vs. the business [see Chapter 4], and how their pay price is not eroded by what the business does . . . To fund the business's new ventures there must be other potential options for obtaining money besides just getting more money from the farmer¹⁴.” This commitment spurred a search for creative financing solutions that ultimately led to raising of millions of dollars in preferred stock from social investors (See Chapter 2).

At the same time, the cooperative did turn to farmers for financial relief. One way of doing so involved refining the Organic Valley’s equity requirements. This not only helped raise more equity, but also tightened the link between the amount of equity and farm revenues, ensuring that mandatory equity would automatically rise in proportion with growth in supply. Before this change, farmers were required to invest a fixed sum (\$11) per hundredweight (100 lbs.) of milk delivered, which at the time of setting the policy reflected 5.5% of farmers’ annual income. Over time, however, this amount failed to reflect increases in the organic pay price as well as differences between farmers in regional and quality premiums. The new policy required 5.5% percent of the farm’s annual income from sales to the cooperative, calculated using the farm’s base (production quota). This change added complexity to the system, requiring adjustment of the amount of equity with changes in the base, but was more equitable and helped equity keep up with the actual growth of the cooperative.

¹⁴ Minutes from the Dairy Pool meeting, February 1999.

Any decision requiring increased investment from farmers was sensitive, and like other controversial decisions, Organic Valley sought participation from farmers in its approval. A preliminary decision to change equity requirements was passed in February 2000 (approved by the board and the D.E.C.) and was communicated to dairy farmers, along with the rationale for the change. Members were invited to discuss it in the regional meetings the following month or by calling in. In a May meeting, the D.E.C. read farmers' letters, for and against the decision, and held further deliberation. In the following month the board finally approved the decision after some clarifications.

Another measure taken by Organic Valley to solve financial difficulties was a temporary price reduction that was used for a collateral for a bank loan, signaling the bank the determination of members to back up the cooperative's financial commitments. Minutes from a June 2000 board meeting present the details of the decision:

Steve O'Reilly made a motion and Duane Bushman seconded that we institute a \$0.30 per hundredweight deduct to finance the co-op's short term capital needs and that the deduction go directly to the financial institution that provides us with the funding (this deduction will not be considered an equity contribution). The motion passed unanimously.

The Board then discussed the process to move forward with this resolution. It was decided that a letter should go out to the membership from Board President Miller explaining this decision. Further, the topic will be placed on the agenda for the Dairy Pool meeting scheduled for July 13. No action will be taken until these two things happen.¹⁵

The commitment to farmers' participation is evident in the process that the board set up to solicit the involvement of the membership. The letter to the members from the board president reviews the cooperative's business outlook and financial situation and communicates the commitment to farmers' involvement in the decision:

¹⁵ Minutes from a board of directors meeting in June, 2000.

As a Board, we feel such a significant step as this should be discussed by the membership. If you have questions or concerns regarding this issue, I urge you to attend this meeting. If you cannot attend, you may contact myself, other Board members, or your DEC representative. I look forward to the chance to discuss this matter with you¹⁶.

The July Dairy Pool meeting was attended by board members, members of the management team, D.E.C. representatives (some of them by phone), and 14 additional farmers. Board members and George Siemon presented an extensive explanation of the decision, and after a discussion it was approved by the D.E.C. Again, the decision was communicated to dairy farmers in a letter from the board president, as part of a review of Organic Valley's current state and the considerations involved in the decision:

Most companies at our stage would simply sell off 10% of their business to obtain the capital needed to finance their growth and their new projects. There are several key companies out there that have made us attractive offers. However, we are 100% committed to maintaining our independence. Here at CROPP, we remain stubborn to keep the Cooperative and the brands under the control of the farmers. This means making the tough decisions to step up to the plate and take the responsibility as owners when the co-op faces financial difficulties . . . Our increased numbers mean we are a significant player in the organic dairy world. This gives us the ability to strongly influence the pay price nationally. This will continue to be a hugely important challenge as we renew our commitment to be an honest marketing vehicle for farmers¹⁷.

In the following month, George Siemon and a board member embarked on "a whirlwind tour of the US visiting farmers to discuss the recent reduction in pay price and hopefully to help all of us farmers/members understand our history and our long term foundation of the 'Y' in the road and how utilization affects our ability to maintain the target pay price."¹⁸

Thus, Organic Valley used this potentially divisive decision as an opportunity to educate

¹⁶ Letter from Jim Miller, Board President to CROPP's dairy producers, 07/05/2000.

¹⁷ Letter from Jim Miller, Board President to CROPP's dairy producers, 07/27/2000.

¹⁸ Letter from Jim Miller, Board President to CROPP's members, 08/31/2000.

farmers about the challenges of operating the cooperative, increase their involvement, and reinforce the mission among the multiple newly added members.

In sum, in 1999 and 2000 financial problems could have jeopardized the reproduction of Organic Valley's identity in several ways: through business failure, loss of independence, or loss of legitimacy and commitment among members (especially newly added farmers, who had not been immersed in the cooperative's mission and culture). Instead, participatory governance processes and the commitment of Organic Valley's leadership allowed it to avoid these unfortunate outcomes and use the episode as an opportunity for organizational learning and deepening of the cooperative's mission.

Recapitulating the Analysis

The handling of both sets of challenges in Organic Valley's governance institutions suggests a pattern. As it grew, the cooperative met with challenges that created tensions between competing value commitments and threatened the reproduction of its hybrid identity. These challenges were handled through the cooperative's participatory governance institutions following several principles. Leadership actively solicited broad participation of the membership in controversial decisions and invested in educating members and building their capabilities for making informed decisions. The decisions that were made reflected core commitment to principles that ensured the long-term viability of the cooperative and adherence to its long-term vision, but allowed for pragmatic compromises of other principles. These compromises were reflexively acknowledged in internal discussions and communications with members, reaffirming the principles that were compromised rather than undermining them. These decision making processes resulted in settlements that were legitimate with the membership, and drove organizational learning and growth. This

learning manifested in more effective and sophisticated organizational procedures, and in membership with improved problem solving capabilities and understanding of the complexity of the cooperative's operation. The table below summarizes how the analyzed challenges fit into this pattern.

Table 8: Overcoming hybridizing challenges through participatory governance

	Managing Oversupply	Financing Growth
CHALLENGE		
Conflicting commitments	<p>Cooperative's financial soundness vs. members' financial soundness</p> <p>Cooperative's power to coordinate supply vs. members' autonomy</p> <p>Solidarity of the entire co-op vs. commitments to particular groups.</p> <p>Older vs. newer members</p>	<p>Long-term independence vs. immediate profit for owners, financial security for the company</p> <p>Long-term growth vs. maintaining pay price, protecting the principles of the "Y in the road"</p>
Threats to reproduction of hybridity	<p>Business failure of the co-op due to gap between farmers' payments and revenues</p> <p>Alienation of the membership due to price reduction and farmer lay off</p> <p>Erosion of the commitment to maintain pay price</p> <p>Erosion of the solidarity among members</p>	<p>Business failure due to capital scarcity</p> <p>Loss of independence to outside investors</p> <p>Alienation of membership due to increased equity requirements and price deduction</p> <p>Erosion of the commitment to protect the pay price from the business</p>
GOVERNANCE PROCESS		
Soliciting participation	<p>A letter encouraging farmers to be involved in solving oversupply challenges</p> <p>Request for feedback on Dairy Pool supply management policies</p>	<p>Invitation to discuss equity in regional meetings or by calling in</p> <p>Invitation to participate in D.E.C. meeting on deduction</p>
Educating members	<p>Distributing meeting minutes including policy options and arguments for and against them</p> <p>Sending analyses of different supply management methods</p>	<p>Distributing meeting minutes</p> <p>Sending letters with extensive explanations</p> <p>Educational regional meetings with CEO and a board member</p>
Acknowledging tensions	<p>"Dropping the pay price is ugly, \$2.00 under is ugly."</p> <p>"With the \$2.00 drop, CROPP broke even in July, but the farmers lost money."</p>	<p>"We remain stubborn to keep the Cooperative and the brands under the control of the farmers. This means making the tough decisions to step up to the plate and take the responsibility as owners when the co-op faces financial difficulties."</p>
Core commitments	<p>Prioritizing the financial soundness of the cooperative over that of farmers</p>	<p>Securing the independence of the co-op, the long-term pursuit of the mission</p> <p>Long-term growth of the co-op</p>
Pragmatic compromises	<p>Dropping pay price to everyone, dropping pay price to some farmers, removing farmers from the milk truck, postponing scheduled addition of members</p>	<p>Reducing pay price to fund the growth of the business</p>

Table 8 continued

	Managing Oversupply	Financing Growth
RESOLUTION		
Legitimate settlements	Prioritization of cooperative's financial soundness over that of members Maintenance of multiple commitments, with emphasis moving over time toward solidarity of the entire co-op The cooperative controls production quotas with members' self-governance	Update of equity requirements Short-term price reduction Search for other financing sources
Organizational learning	Establishing alternative methods of dealing with oversupply, and gaining experience with their application Development of a quota system that coordinates the total production of the cooperative with that of individual members	Refinement of equity requirements to better align equity and business volume and to increase fairness Spurring the business to find other creative financing solutions (e.g. preferred stock from social investors).

Source: author's analysis

EVOLUTIONARY LEARNING

Organic Valley's governance institutions embody the institutional design principles that Ansell (2011) identifies as conditions for "evolutionary learning." These principles, which Ansell theorizes drawing on American pragmatism, foster the ability of institutions "to improve their knowledge and problem-solving capacity over time through continuous inquiry, reflection, deliberation and experimentation" (Ansell 2011:5). Institutions that foster evolutionary learning are *problem-driven*, dealing with practical issues that ground examination and revision of received knowledge, principles, and values by focusing on their particular implications. In our case, challenges of supply management and financing called attention to related organizational routines and value commitments associated with them.

Evolutionary learning also depends on *reflexivity*, that is, "critical and self-conscious reflection" (Ansell 2011:11). The discussions of the challenges analyzed above involved such critical reflection on existing practices and potential solutions, while exploring their

implications in terms of the Organic Valley's value commitments. "The most sophisticated form of reflexivity," suggests Ansell, "occurs when individuals or groups come to appreciate how their choices shape the subsequent development of their own character and competence. This requires attention to how the choice of 'means' shapes subsequent 'ends' and to how present problem solving can 'scaffold' competencies for future problem solving" (Ansell 2011:11). Organic Valley practiced such a form of reflexivity in treating members' broad and active participation at the same time as a means for solving the problems at hand, a way to build the membership's competencies for dealing with future challenges, and a practice that in itself embodied (and reproduced) the cooperative's identity as a democratic association of farmers¹⁹.

Third, Organic Valley's governance institutions had the principle of *deliberation* at their center, with members and staff directly communicating with each other and sharing perspectives about problems and their solutions. Such communication creates possibilities for bridging different perspectives and value commitments and for the emergence of new meanings that can reshape the cooperative's goals and organizational identity. For example, the consideration of Horizon's offer to buy the cooperative led to a realization that as Organic Valley increases its national presence, it acquires "the ability to strongly influence the pay price nationally²⁰." This realization was a small but important adjustment, which was part of the in the evolution of Organic Valley's identity from a small, regional cooperative to one that was a leader in the national market. Similarly, discussions around the conflict between the need of the cooperative to control its members' production and the

¹⁹ See, for instance, the quote in pp. 160-1 from the letter to dairy farmers from 03/23/1998.

²⁰ Letter from Jim Miller, Board President to CROPP's members, 08/31/2000.

commitment to respect members' autonomy led to a third perspective that transcended the contradiction, according to which members self-governed the quota system. "Evolutionary learning occurs," summarizes Ansell,

when these three generative conditions – a problem-driven perspective, reflexivity, and deliberation – work together in a recursive cycle. Problems generate reflection, which generates deliberation, which may produce a refined definition of the problem (Ansell 2011:12).

In our context, this evolution helped not simply reproduce Organic Valley's hybrid identity, but also facilitate its evolution with the cooperative's growth.

CONCLUSION

I have argued above that there are two conditions for a cooperative being an agent of civil society in the market: a collective identity that represents alternative values and goals to those prevailing in the market, and governance processes that meaningfully engage members in determining the cooperative's direction. This chapter established a connection between these conditions, showing how members' participation in governance can help reproduce and drive the evolution of a collective identity with distinct values and goals. By inducing evolutionary learning and granting legitimacy to controversial decisions, Organic Valley successfully overcame common hybridization challenges.

First, participatory governance facilitated organizational innovation that allowed Organic Valley to adapt quickly and effectively to changing conditions, as both the cooperative and the organic market were growing quickly. Organic Valley developed a set of supply management policies that were tailored to its distinct goal of maintaining high and stable farmers-determined pay prices. Through the cooperative's governance institutions, members and staff gathered multiple perspectives about supply management problems and engaged in critical self-reflection and deliberation to solve these problems. The process was

recursive and incremental, with D.E.C. and board members meeting monthly and reflecting on consequences of past decisions and on feedback gained from those affected by these decisions. This policy development process can be seen a sequence of experiments that provided decision makers with information that helped reduce uncertainty and ambiguity. This, along with the ability to innovate internally, allowed Organic Valley to adapt to changing circumstances without succumbing to isomorphic pressures to compromise essential parts of its identity.

Second, participatory governance allowed Organic Valley to avoid the erosion of value commitments that were central to its identity due to pragmatic compromises. In some cases, deliberation in governance processes helped transcend conflicts by generating new perspectives that reconciled the values at stake. In other cases, weakening of value commitments was avoided by embracing governance institutions' capacity for critical self-reflection. Rather than glossing over sacrifices that had been made, compromised values were reflexively acknowledged, and thus, the commitment to them was reaffirmed.

Third, participatory governance institutions helped maintain a sense of shared identity among farmers and employees, centered on Organic Valley's values and goals. Frequent, meaningful interactions between members and staff around governance problems fostered strong connections and trust and ensured that each group remained informed by the other's viewpoint. Active solicitation of members' involvement in making controversial decisions helped maintain the legitimacy of such decisions and prevented alienation of the membership. Efforts to educate members about the cooperative's principles and policies and to inform them about considerations pertinent to tough decisions also helped Organic Valley's cohesion. Such education efforts built the membership's capabilities to engage in

governance over the long term and allowed it to appreciate the complexity of achieving the cooperative's goals and the necessity of occasional pragmatic compromises.

Chapter 8: Conclusion

The case of Organic Valley expands our understanding of the possibilities for civil society to shape the socioeconomic order under current conditions. The cooperative defies theoretical expectations by establishing governance that is rooted in civil society over economic activity that spans a network of over two-thousand organizations. Put differently, the cooperative functions as a key node between the commercial world of agri-food and multiple fields of social organizing, embodied in the tradition of agricultural cooperatives and the organic and environmental movements.

AGRICULTURAL COOPERATIVES AS CIVIL SOCIETY AGENTS

My dissertation advances an understanding of the relationship between civil society and the economy, which recognizes civil society as an autonomous sphere with the potential of subjecting economic processes to principles that are grounded in social power and are distinct from those of the market. Specifically, I explore the possibility for mission-driven businesses to function as agents of civil society in the market, realizing alternative visions of socioeconomic order through direct market involvement. I identify two conditions that allow a cooperative, or more generally, a business enterprise with civil society characteristics, to function as an agent of civil society in the market. First, such an organization needs a strong identity that is centered on values and goals that differ from those prevailing in the market and are held by a social constituency. Second, a cooperative can be considered an agent of civil society in the market to the extent that it has governance processes that empower its constituency and allow it to meaningfully engage in shaping the cooperative's direction. Together, these conditions ground a cooperative in an autonomous

civil society logic and support its potential to democratize the economy, to promote more equitable distribution of power and value in it, and to produce collective goods.

Based on these criteria, my dissertation assesses the extent to which agricultural cooperatives in the U.S. can be considered as agents civil society in the market. As Schneiberg et al. (2008) showed, around the turn of the 20th century, the formative years of agricultural cooperatives, they were indeed part of an agrarian social movement and represented an attempt to promote an alternative socioeconomic order through economic enterprise. However, over the 20th century, cooperatives turned from challengers to incumbents in terms of their place in the economy and their relationship with the state. From the late 1950s, established agricultural cooperatives have largely lost their connection with contemporary social movements and adopted mainstream economic ideologies that emphasized economic efficiency, managerial expertise and shareholder value maximization.

By contrast, Organic Valley was formed as an ideological project in response to the perceived failure of established cooperatives to sustain family farms as a group, and was rooted in distinct social movement roots that aligned it with the contemporary organic and environmental movements. These social movement roots informed a collective identity that had at its core different goals and values from those of established cooperatives, including securing the viability of family-scale farming and promoting sustainability through organic agriculture. Organic Valley also heavily invested in engaging members in participatory governance of price determination, supply management and on-farm production. These differences in collective identity and governance processes supported business strategies that differed from those of established dairy cooperatives and produced distinct economic, social and environmental outcomes.

The historical review, and the comparison between Organic Valley and other contemporary cooperatives, find considerable variation over time and across cases in cooperatives' goals values and impact. Such variation cannot be accounted for by theories of cooperatives that focus on their distinctive ownership structure (Nourse 1945, Hanssman 1996) or organizational form (Schneiberg 2010). Instead, such variation is better accounted for by emphasizing the importance of cooperatives' collective identity, interface with external social constituencies and governance processes.

MAINTAINING HIGH AND STABLE PRICES

Organic Valley has developed an organic dairy value chain with over 2,000 firms, through which it realizes its mission, securing for its members prices that are high and stable enough to support pasture-based, family-scale dairy farming. The accomplishment of this mission depends on the cooperative's position as the lead firm of this value chain, with a capacity to determine the division of labor, the conditions of participation, and the distribution of value in it. Organic Valley's power to govern its value chain is not unusual for large agri-food marketers. However, the cooperative stands out in its goals and values, and therefore the case is a natural experiment in which the lead firm uses its power to pursue primarily social and environmental goals that are grounded in civil society.

The case demonstrates that lead firms can successfully adapt their strategies and capabilities to the pursuit of such alternative goals and thus shape the industries they operate in according to their values. Put differently, the dissertation establishes that outcomes of economic processes in the agri-food industry are not simply determined by market forces, but rather depend to a large extent on the goals and values that guide lead firms. As a lead firm that derives its goals from civil society, the cooperative has the capacity

to generate public goods that are typically thought of as the domain of markets and states: coordinating supply and demand, redistributing value and power, and regulating risk and market volatility.

Organic Valley realizes its mission using a combination of strategies and governance instruments. Most of these are common to large lead firms and food marketers, and are adapted to the cooperative's goals, while others are distinct and were innovated by Organic Valley. As a lead firm, Organic Valley is the nexus of relationships between value chain participants, transacting directly with every firm from the farms to the customers. The cooperative coordinates value chain activities through these transactions using a variety of governance instruments. Contracts, standards, and relational governance are common transaction governance tools, while the transaction with farmers is governed through participatory institutions that were developed by Organic Valley. Standards, including dairy industry standards and the organic regulations, reduce transaction costs by efficiently transmitting complex information. Strong relationships bring the well documented benefits of helping transmit tacit knowledge, generating trust and restricting opportunistic behavior. Yet, Organic Valley is especially invested in cultivating strong relationships with value chain partners and uses them as the medium through which the mission travels throughout the value chain. Organic Valley's employees and farmers mobilize partners in value chain relationships to promote the cooperative's mission: convert them to organics, educate them about working organically, and produce legitimacy premiums that change terms of transactions.

Organic Valley's value chain is vertically disintegrated and relies heavily on partnerships with other organizations: dairy farms, processing plants, retailers, distributors, brokers, freight companies, milk haulers and milk handlers. In its early days, the

cooperative turned to partnerships out of necessity, due to scarce capital, but reliance on partnerships soon became a deliberate strategy that matched industry trends. This strategy depended on the availability of unutilized conventional dairy infrastructure and on its relatively easy adaptation to organic products, which is facilitated by the national organic regulation. Reliance on partnerships has saved the cooperative the need to invest the capital and organizational resources in developing its own national infrastructure and production capabilities, and freed it to specialize in the competences needed for effective value chain governance: product development, brand management, information processing and relationships.

In order to realize its mission, Organic Valley tailored its business strategy to the maintenance of high and stable pay prices, and relinquished other goals such as maximizing of profit or the value of the company. Supply, demand and other price-related operational indicators are continuously monitored and projected to guide production and marketing decisions. The cooperative operates an innovative supply management program, which is governed by members and aimed at matching the aggregate supply to the projected demand. Exceptional product diversity gives Organic Valley a degree of buffering from market pressures, allowing it to channel its milk supply to a variety of alternative market outlets with different shelf lives and profit margins. When these measures are insufficient to keep market pressures at bay, pressures from farmers and customers are buffered by strong relationships.

REPRODUCING CIVIL SOCIETY IDENTITY

Organic Valley's ability to become a leader in a mass market industry depended on acquisition of capabilities needed for a lead firm in a mature industry. The ability to acquire

such capabilities is puzzling for two reasons. First, success in mature industries requires very different capabilities than those that serve movement driven businesses in emerging industries, such as organic foods. Success in mass market industries typically depends on capabilities that civil society organizations lack, such as logistical sophistication, effective marketing to broad audiences, and connections with other large food companies. Organic Valley was able to learn and acquire such capabilities by working closely from an early stage with companies from the conventional food industry. The cooperative was formed in a region specializing in dairy production, and its founders benefitted from a high degree of initial knowledge of the dairy industry and connections in it. Over the years, through its extensive partnerships with other firms, Organic Valley expanded its knowledge and connections and acquired capabilities that supported its sustained growth. As opposed to many other social movement driven companies, Organic Valley's identity was not strictly oppositional to the mainstream food industry, but included solidarity with conventional agriculture and an organic philosophy that emphasizes the "the interdependence of all life" (CROPP 2015a). These ideological elements facilitated close partnerships with mainstream agri-food without compromising the cooperative's social movement identity.

Organic Valley's ability to acquire the capabilities needed for mass market success is also puzzling because some of the capabilities it depended on were specific to its mission and could not be simply borrowed from other firms. The inadequacy of existing organizational models for the pursuit of Organic Valley's goals exposed it to the risk of either failing to adapt to changing circumstances or succumbing to isomorphic pressures under the conditions of goal ambiguity and uncertainty induced by its fast growth. The cooperative overcame such threats to the reproduction of its hybridity through high capacity for organizational innovation that was facilitated by its participatory governance

institutions. These institutions were problem-driven, reflexive and deliberative, and thus supported *evolutionary learning*, continuously improving knowledge, routines, and problem-solving capacity. Relying on participatory governance processes, Organic Valley developed an innovative supply management program that was customized to its distinct goal of maintaining high and stable farmers-determined pay prices.

Organic Valley's participatory governance institutions helped it overcome additional challenges for reproducing its civil society identity. Participatory governance allowed the cooperative to reproduce important value commitments in its identity even as these commitments were occasionally compromised due to pragmatic reasons. In some situations, reflexive acknowledgement of such sacrifices helped reaffirm the commitment to these values. In others, new perspectives that emerged in deliberation allowed participants to transcend apparent conflicts and reconcile tensions between competing values.

Furthermore, participatory governance helped maintain a sense of shared identity among members and staff despite controversial decisions that were occasionally made by the cooperative. Governance institutions brought together farmers and staff in frequent interactions and created trust and understanding. In controversial decisions, leaders actively sought the involvement of members in order to enhance the decisions' legitimacy. Cohesion was also ensured through investment in members' education about the cooperative's principles and policies and in communicating to them the considerations for and against tough decisions.

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