

# **PATHS TO COOPERATIVE SURVIVAL: STRUCTURE, STRATEGY AND REGENERATION OF FRUIT AND VEGETABLES COOPERATIVES IN ALMERÍA AND VALENCIA, SPAIN**

by

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## **ABSTRACT**

Two important Spanish fruit and vegetable (F&V) producing areas of Almería and Valencia in which agricultural cooperatives and smallholder and family farmers play a vital role are compared. Their F&V cooperatives have distinct development paths and have adopted different structures and strategies, attributable to historical, cultural and political circumstance, infrastructure, regulation and policy measures and/or international exposure. In considering the factors which contribute to agricultural cooperative success or failure, persistent atomization is often cited as inhibiting the ability of cooperatives to thrive. While not discounting that economies of scale may be important, we argue for analysing agricultural cooperative activity using a neo-endogenous approach (a mix of exogenous and endogenous factors wherein local level characteristics and actors interact with external or global forces), combined with insights from path dependency theory and a dynamic lifecycle approach. Agricultural cooperatives are presented as dynamic entities, capable of renewal, redeployment, regeneration and recombination.

## 1. Introduction

### 1.1 Introduction of case study

Agricultural cooperative models are neither monolithic nor static, demonstrating a diversity of forms, structures and strategies that change over time. While comparative cooperative studies often rely on country differences, this paper will compare two cooperative areas within Spain in the same fruit and vegetable (F&V) sub-sector. The study of regional agricultural cooperative models is useful so that historical, cultural, legislative, institutional, governance, management and other factors may be more coherently considered and linked to cooperative success or failure.

The selected case study regions are Valencia and Almería (Figure 1). Although both regions are known for their smallholding and family farms and cooperatives, they differ in fundamental ways. Valencia is the historical leader with an established tradition of F&V agricultural cooperatives, marketing, export and internationalization, due to its fertile lands, entrenched commercialization, access to transport and infrastructure and relative wealth in Spain. It is home to the benchmark second-tier cooperative in Spain. The historically poorer province of Almería began its F&V production at a much later stage, in a drought ridden and isolated corner of south-east Spain. The coastal region where the intensive greenhouses now stand was a relative blank slate of infertile land until the 1960s. Valencia is dominated by a second-tier structure with small cooperatives based on individual small towns and Almería overwhelmingly by medium to small size first-tier cooperatives, which coexist in close proximity.<sup>1</sup>



Figure 1. Case study areas.

### 1.2 Theoretical perspectives

From a theoretical perspective, path dependency, an essential theoretical construct for organisational studies (Sydow et al., 2009), is one method by which to analyse the development of cooperative strategies and structures: at the cooperative firm level (micro), the governance (meso) and/or the institutional (macro) level (Vergne and Durand, 2010). Agro-alimentary systems often exhibit an important inertia or path dependency on old forms or organizational logic. They persist even when underlying

conditions which dictated the function, have disappeared (Gallego and Lamanthe, 2011). Path dependency can make certain necessary adaptations to changing market conditions difficult (North, 1990, 1993) and can result in the persistence or 'stickiness' of inferior governance structures, preventing subsequent adjustment (Williamson, 1999). Economic institutions such as cooperatives serve as carriers of history maintaining norms and cultural patterns over time (David, 2001; Hannan and Freeman, 1984). As Stinchcombe (1968) observed, organizations' characteristics reflect their founding logic. This is relevant for agricultural cooperative enterprises who by their very nature are based on members, not capital.

However, particularly in the case of cooperatives, such path dependency may also be a source of relationships, capacities and activities which can be reactivated or transformed creatively given existing diversity, i.e. not all entities/actors have progressed in the same manner and in the same way, and allow creative solutions in times of crises (Grabher, 1993; Martin and Sunley, 2006; Gallego et al., 2008). At the macro level, Schneiberg (2007) examines how established institutional paths contain possibilities and resources for change and off-path directions and organizational forms, even in the absence of exogenous shocks. Looking at various types of cooperatives, including agricultural cooperatives, Schneiberg (2011) illustrates how even the most settled paths contain elements which can serve to re-assemble or revive institutional form, allowing redeployment of resources to mobilize change and allow new paths within existing systems. This macro analysis is expanded in his analysis of organizational diversity through parallel cooperative systems, where evidence is provided of the founding of tens of thousands of enterprises within an environment of corporate consolidations. At the micro and meso level Helfat et al. (2007) examine path dependency in the context of the resource based and the dynamic capability views of the firm, noting that capabilities emerge from a series of path-dependent learning experiences acting simultaneously as a remedy to path dependent inertia.

In understanding how reactivation, changes in direction or the taking of new paths take place at micro, meso and macro levels, looking at how dynamic lifecycle frameworks have been structured is useful. Helfat and Peteraf (2003) describe the dynamic capability lifecycle continuum as 'founding and development, and maturity'. The six branches which may be taken at a selection/choice event along this continuum include: retirement, retrenchment, renewal, replication, redeployment and recombination. In Helfat and Peteraf's case they refer to a firm existing within a population of firms. Similar to Helfat and Peteraf (2003), but applied specifically to agricultural cooperatives at the micro level, Cook and Burrell (2009)<sup>2</sup> described a dynamic lifecycle process wherein cooperative decision makers select among regenerative solutions when faced with organizational challenges posed by vaguely defined property rights and heterogeneity specific to the cooperative business form and logic. The lifestyle continuum set out by Cook (1995) referred to the stages of: economic justification, organizational design, growth, crisis and recognition of conflict, and restructuring (whereby a new lifecycle begins).

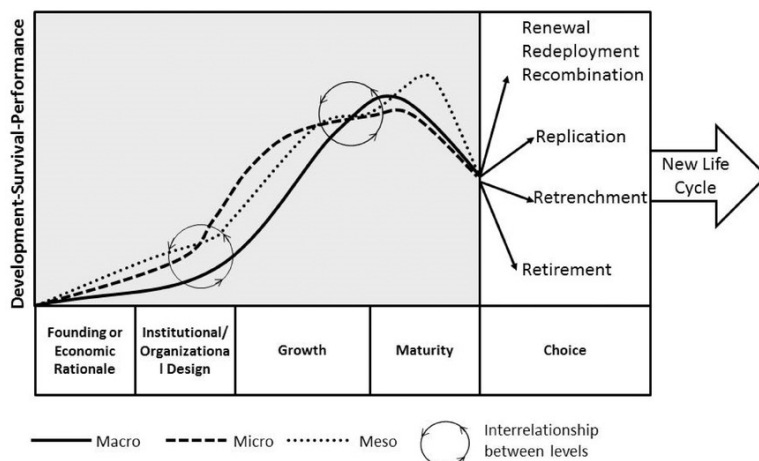
In this case study we consider both exogeneous and endogeneous factors faced by the cooperative regions and the role of the cooperative institutions when choosing strategy. We focus here on the functional role of cooperatives at critical moments in order to avoid inertia and the limiting influences of path dependence. Our analysis is mainly at a population of firms or a meso level, although certain micro level considerations are also

relevant, particularly in the case of dominant cooperative entities, as well as the macro level in terms of regulation and policy. It is important to recognize that the networks and cluster-like arrangements found in these two cooperative areas can also be characterized as capabilities, in addition to tangible, intangible and human assets.

Endogenous factors include the effective use of natural resources, cooperative enterprise initiatives, local organization of production and marketing, and the creation and diffusion of innovation, including social capital and networking amongst cooperative institutions which lead to the accumulation of collective goods. Exogenous forces include international agricultural competition as well as regulation and government policies (Galdeano et al., 2011).

In this case we look to cooperative organizational and local institutional capacity that is able to both mobilize internal resources and to cope with the external forces acting on a region. Path dependency and dynamic capability life cycle approaches inform such neo-endogenous thinking, drawing on their roots in institutional theory and complementing general frameworks set out by Ostrom (1990, 2005, 2010) on institutional diversity and the central role of active participants and diverse collective enterprise models. An important aspect of Ostrom's (2005) work in the 'action arena' which included exogenous and endogenous features, and collective action 'problem solving', was the fact that decisions taken by actors had a feedback effect and thus decision processes continue in an interactive loop.

In an attempt to give a rough picture of a general dynamic cooperative lifecycle (Figure 2), we look to four lifecycle phases, merging concepts from Helfat and Peteraf (2003), Cook (1995), Cook and Burrell (2009) Helfat et al. (2007) and Schneiberg (2007, 2011) and Ostrom (2005): i) founding /economic rationale; ii) organizational design and the development of cooperative institutions; iii) growth and iv) maturity (from which choice follows) and three levels of analysis: micro, meso and macro (Vergne and Duran, 2010). The interrelationship between levels should not be considered to be limited to any particular phase although certain points in time may be more influential than others.



**Figure 2. General dynamic cooperative lifecycle: multi-level, multi-phase.** (Author compilation of Helfat and Peteraf 2003, Cook 1995, Helfat et al. 2007, Schneiberg 2007, 2011, Ostrom 2005, Vergne and Duran, 2010).

The two agricultural cooperative development models in this case study demonstrate the proactive capacity of actors in shaping their own institutions and economic relations in

order to provide economic and social solutions for the community in which they operate, all the while dealing with the external relationships and global competitive demands on the sector. This approach intends to demonstrate a more nuanced approach to cooperative structure and strategy than a more limited emphasis on size, policy, legislation, or multi-layer structure.

### 1.3 The case study context: Spanish agricultural cooperatives

One of the main concerns about Spain's agricultural cooperatives is their relative small size (Caballer, 1995; Juliá and Server, 1999; Juliá and Meliá, 2003; Meliá and Server, 2004; Montero and Montero, 2005; Vargas, 2007). It has been argued that atomization creates difficulties for Spanish agricultural cooperatives in relation to the concentration of supply, investment needs for new projects, achieving economies of scale and wielding market power. Spain's agricultural cooperatives are generally small and numerous relative to the European average cooperative size and number. In spite of the fact that the average turnover increased from 2.7 million Euros in 2000 to 4.9 million Euros in 2011, they are still behind the European average turnover of above 7.5 million. Only 39% have more than 1,000 members and only 1.6% of these cooperatives have a turnover above 50 million Euros (OSCAE, 2012). 74% have a turnover of less than 5 million Euros and 39% less than a million (OSCAE, 2012). Although the number of cooperatives has declined over the last decade, in 2011 there were still 3,861 agricultural cooperatives (3,659 in 2005 and 4,118 in 2000). However, in 2011 total turnover increased to 19,172 million Euros, with 1,144,070 members and 97,615 employees, demonstrating a 17.5% increase from 2005, in which year turnover was 16,323 million Euros (OSCAE, 2012).

Contributing factors to 'atomization' are cooperative legislation and the federated or second-tier cooperative structures. Most agricultural cooperatives in Spain are constituted under regional laws, resulting in a tendency to limit their scope, although more flexible cooperative legislation has been introduced to encourage inter-regional and international activity. From region to region, the predominance of either first and second-tier cooperatives differs.<sup>3</sup>

In February 2013 the Spanish central government, impatient with slow progress on agricultural cooperative concentration and integration, introduced a law (Law 13/2013), for the integration of agricultural cooperatives and other associative entities. However, empirical evidence in recent studies (Meliá and Martínez, 2014; Encinas et al., 2011; Campos i Climent, 2011) analyzing the performance (i.e. improvement of economic-financial situation, reduction of costs, increase in cooperative and member profits, etc.) of small, medium and large cooperatives, found no correlation between economies of scale and cooperative success and that small cooperatives demonstrated better economic and financial performance both in their activities and sales volumes and as well in better use of resources (Encinas et al., 2011).

This paper suggests that the policy debate requires a shift of approach. Cooperative enterprises are more than a concentration of more or less capital. We argue that while size may be an important factor, it needs to be put within the context of the cooperative dynamic lifecycle. A different approach, which recognizes relationship, capacity and institutional diversity as a source of dynamic change, as set out in section 1.2 above, would be helpful in the discussion of cooperative structure, strategy and survival,

emphasizing the ability of cooperative decision-makers to harness a wide range of capacities and to reposition and regenerate when faced with competitive challenges.

#### 1.4 Research questions and data collection

We have set out two comparative research questions, which will be answered in Section 4, based on the description of the cooperative lifecycles in these two regions.

1. What are the differences in strategy and structure between Almería and Valencia?
2. How do path dependency and dynamic capabilities life cycle approaches help to explain the role of cooperatives and the success (regeneration) and/or failure (degeneration) of these two F&V areas?

The case study was based primarily on data available from the Ministry of Agriculture, Food and Environment, SABI, the regional governments of Andalusia and Valencia, the agricultural census and other sources noted herein. Additional information was collected through interviews with various experts and cooperative stakeholders.

## **2 Description of Almería F&V cooperatives and lifecycle history**

Immediately prior to cooperative agricultural activity the province of Almería was the poorest area in Spain, with a level of income 50% lower than the already very low national average (Sánchez-Picón, 2005). It was isolated, had little infrastructure and its population had largely emigrated, effectively rendering it an economic, social and cultural wasteland. Almería's true cooperative movement (as opposed to cooperatives set up and controlled by the Franco regime) was quietly organized 'bottom up' in the 1960s.

Currently, it is an important agricultural production area within Spain, representing 10% of total agrarian production.<sup>4</sup> As a percentage of total value added in 2010, agriculture represented 12% for Almería in contrast to 2.3% for Spain and 1.8% for Europe (INE and Eurostat data). It is also home to the largest credit cooperative in Spain, Cajamar, which is the 15th largest bank in the country.

In spite of such subsector economic dimensions, the average landholding is 1.8 hectares, most held by small scale or family farmers (13,500 in number) who are members of agricultural cooperatives. The sector provides direct employment to 40,000 workers. In 2012, agricultural production increased to almost 3 million tons with a value of production of 1,546 million Euros. Cooperatives are responsible for marketing more than 50% of all agricultural products, of which 95% are fruits and vegetables. Approximately 70% of the produce is exported, resulting in trade surpluses. All of this is produced in an area of roughly 30,000 ha of greenhouses, within a larger area of 47,656 ha. More than 250 complementary or auxiliary businesses, both cooperative and investor owned have been created with a turnover of more than 1,000 million Euros (Fundación Tecnova, 2009). Equally important is the equitable distribution of wealth generated in the region (Downward and Taylor, 2007).

What is unusual about the Almería model is its growth into a specialized agricultural based sector (i.e. a primary sector), which is heavily invested in technological advances all the while maintaining its atomized small family growers and its predominant cooperative business form. Much of the sector's research and development, which is crucial for such specialization, is based on sustainable technologies and practices, for example

biological, as opposed to chemical, crop control, and is financed by cooperative sources and promoted by cooperative institutions. The cooperative sector also has important institutional and business relationships with SMEs, IOFs, regional governments, the university and other research centres which have resulted in important innovations.

With respect to financing the cluster, the Almería agricultural and credit cooperatives are intricately intertwined. This is not unusual, as agricultural and credit cooperatives often have a close relationship. However, the growth strategies of the local cooperative bank have resulted in a wide national presence, outgrowing its local geographical scope in order to feed the capital needs not only of its agricultural cooperatives but also of the growing auxiliary businesses.

#### Lifecycle history

We briefly outline the stages of the cooperative F&V agricultural sector activity of Almería to demonstrate the transformation of mainly marketing cooperatives (and their members and communities) from peasant farmers and organizations to complex businesses. Their activities and roles changed over time as they relied on their dynamic capacities to regenerate, renew and reposition.

#### **The economic rationale-setting up of cooperatives (1960–1975)**

In the late 1950s Franco's corps of engineers decided to exploit a large aquifer in Almería in an arid zone of 30,000 ha. next to the sea. Newly settled farmers, in an attempt to survive in a climate of intense sun, dry soil, saline water and strong winds created a technological innovation which consisted of putting down a layer of fertilizer, then covering this with a layer of sand to keep the roots moist and filter the salt. Wind barriers were erected using cane and after the arrival of plastic, a clear plastic sheet was put atop a structure using wooden posts, creating a rudimentary greenhouse. This simple innovation radically transformed the region.

In 1961 a model of unsustainable development based on exploiting subterranean waters was put in motion. Families were allowed to buy up to 3.5 hectares of land. With increased production underway by use of irrigation and basic greenhouses, they needed to sell their production. However, local Almería firms were denied permits to market their products by the government and commercialization was thus controlled by larger companies from Murcia, Alicante and Valencia, who would buy Almería product and re-export it under their own labels (Cazorla Sánchez, 1999). Roads and railway lines were also underdeveloped and access to fair credit non-existent. There was a clear economic rationale for initiating collective action. In 1963 the credit cooperative Caja Rural Provincial de Almería (now Cajamar) activity commenced, on the initiative of a few local people who had heard of the Raiffeisen model. It encouraged the farmers to set up their own local cooperatives or associations and provided financing for the same. Even though the cooperatives were not true voluntary and autonomous entities (they were cooperatives under a dictatorship), the fact that they were small enterprises with the support of independent financing was the start of an enterprise model in the region.

Greenhouse areas were set up and farms were in a limited number of geographically close areas. Farms were literally next to each other in a patchwork pattern (as opposed to the many farms in different small towns in Valencia.)

### **Organizational design-the development of cooperative institutions (1975–1990)**

The transition to democracy began in 1975. High unemployment and little sense of international competitiveness followed the loss of the paternalistic state. Almería was at a clear disadvantage to regions such as commercially savvy Valencia, which had not only agriculture but a textile and wood industry. Land prices rose, mineralization of the soil increased, pesticides started to accumulate, erosion was a problem as was waste disposal. Production started to decrease and energy prices started to rise. Supply overtook demand as other areas of Spain, including Valencia, also had increased production. European Community and other countries were serious competitors. In turn this weakening position gave more market power to large agro-food companies (Cazorla Sánchez, 1999). Many cooperatives were set up in the late 1970s as cooperative legislation flourished, accompanied by constitutional protection. In 1982 the regional government of Andalusia introduced cooperative legislation which encouraged the setting up of cooperatives. This encouraged atomization: new cooperatives were set up rather than members joining existing cooperatives.

As well, important cooperative institutions were set up during this time: an experimental farm and centre for economic studies funded by the cooperative bank; an association of F&V producers; the federation of F&V exporters, amongst others. The cooperative farmers made the transition to a market economy and to a democracy, from both an organization and management perspective. In addition, the need for innovation, on a social, economic, strategic and institutional level was funded by the cooperative bank (owned and managed by the members), which invested in market and agricultural R+D and supervised implementation, arguably supplanting the organizational need for a second-tier cooperative function (Giagnocavo et al., 2012).

### **Growth (1990–2000)**

With the foundations of marketing cooperatives, cooperative finance and technological investigation put in place by the cooperative sector, as well as the institutional structure for marketing and export, the process of growth began in the new intensive agricultural sector. New markets opened, particularly those of the EU. Innovations funded by cooperative research not only significantly increased production but also allowed Almería's product to enter the market *en mass* two months earlier, an important advantage over competition from other countries.

Until the early 1990s Almería's F&V sector and cooperative bank created a self sustaining financial system. Thereafter, larger infusions of capital to meet increased demand and to enabled the farmers to compete. The cooperative bank pursued an expansion strategy to capture more funds and continued to invest in research and technology. During this period there was a widespread implementation and incorporation by cooperatives of production technology and business management applied to farms resulting in the conversion of the peasant into an agricultural entrepreneur. Pérez Mesa et al. (2009) point out the proactive role of the cooperatives in dissemination and rapid adoption of new technologies. The cooperative sector provided management training courses for the agricultural cooperative boards, information systems, technical sessions for field technicians, specialist agricultural courses and assistance with grant applications.

Throughout the 1990s there was an organic (as opposed to mandated) merging of cooperatives into larger first-tier entities in order to create efficiencies (Flores-



Jiménez, 2005). Cooperative institutions contributed to the creation of new lines of businesses in the cooperatives, supporting business associations related to agriculture but also utilizing network of institutional contacts for the development of their projects. Services and infrastructure became similar to that of industrial districts. The infrastructure for cooperative direct commercialization was put in place.

### **Maturity – 2000 onwards**

Since 2000, the development and maturity of the agricultural support and services industry has given way to sector diversification and the creation of a cluster. In response there has been a renewed focus on R+D+i. In 2001 Tecnova, a research foundation designed specifically to meet the research needs of the cluster was put in motion and currently has 125 cooperatives and other cluster actors. Agricultural production increased, optimizing costs and the implementation of quality control systems took on a more significance.

Differentiation in terms of biological control and integrated pest management and certified quality product has been vigorously pursued by the cooperative association. In 2005, 300 ha. were under integrated pest management. Currently, this figure is 25,000 ha., the successful rollout of such change being orchestrated by cooperative organizations. There has been a marked change from a production orientation to a customer centered strategy and from commodity product to specialized product.

However, there have been setbacks to repositioning. An attempt to set up a chain of F&V stores, with the initial plan calling for 200 stores, was not successful and was abandoned. Diversification into alternative energy activities or related businesses occurred in larger cooperatives, but not significantly, especially given the recent cuts to subsidies for investment in solar and wind energy.

Almería's first-tier cooperatives, true to path, continue to dominate the market and are increasing in size and influence, relying on various ways to increase size: organic growth, acquisitions and mergers. As well, the second-tier structure is making a renewed appearance. Collaborations, increased efforts in terms of exports and internationalization are evident. As well there has been a consolidation in the commercialization phase, particularly in exports. Currently approximately 70% of Almería vegetable production is destined for export. Mergers amongst first-tier cooperatives and SATs have characterized the response of Almería's cooperative sector to increasing competition although this has proceeded slowly.

There has been a concerted coordination between cooperatives and distributors (Pérez Mesa et al., 2013) as well as increasing coordination and the formation of networks.

Up until 2012, prices of principle products had declined significantly and were attributed to increased production, lack of negotiating power and the necessity to compete in markets dictated by wholesalers and distributors. However, in spite of such decrease, according to the Association of F&V Producers of Almería, their member revenues have increased in recent years, from 1,474 million in 2004 to 1,866 million in 2010, representing an increase of 27%. More recently, according to the Junta de Andalucía, Almería 2012–2013 season prices were the highest in the past six years with a market value of 2,380 million Euros (a 13.6% increase with respect to the prior season). The value of production has also grown 14% to 1,765 million Euros.

### **3 Description of Valencia F&V cooperatives and lifecycle history**

In contrast to Almería, Valencia's significant production and exportation of product, as well as its well developed infrastructure preceded its cooperative history. While Valencia has a long history of cultivation dating back to the Middle Ages, the important moment in its horticultural sector occurred when citrus crops were introduced in the 19th century upon which the tradition of exportation of agricultural products is based. During most of the 20th century the orange exports were fundamental to the Spanish trade balance.

The average farm size in Valencia is 5.2 ha. However, more than 54% are less than 2 ha and with respect to the coastal F&V farms as small as 0.25 ha. For such reason since the end of the 19th century, small family farmers have organized in cooperatives to increase bargaining power. Cooperatives are structured around single villages and are members of second-tier cooperatives. In 2010 second-tier Valencian cooperatives represented 10% of total second-tier cooperatives in Spain. However they represented 40% of Spanish second-tier total turnover and 46% of employees.

Valencia has as well a Mediterranean coastal agriculture based on irrigated crops; mainly fruits (essentially citrus), vegetables and rice. The coastal counties of the Community of Valencia (the regional equivalent of Andalusia, of which Almería is province) had a value of agricultural production of 1.8 billion Euros in 2012. Within such production, 4 million tons of F&V were produced in 2012. F&V cultivated area in 2012 was 347,603 hectares representing approximately 63% of total cultivated area.

Like Almería, this type of intensive cultivation requires more investment than dry crops, although unlike Almería, the Valencian climate allows open air (non greenhouse) agriculture. Valencia has a large number of farmers with small holdings, many part-time, and thus cooperatives have also been an important method by which to commercialize their products. Cooperative commercialization represents approximately 50% of total agricultural production. With respect to market share of cooperatives, F&V cooperatives commercialize approximately 50% of total agricultural production in Valencia (Generalitat Valenciana, 2010).

#### **Lifecycle history**

There are three main periods of modern Valencia agriculture: end of 19th century till end of 1930s; 1940s to 1980s; 1990s until present.

#### **The economic rationale-setting up of cooperatives (End of 19th century to Spanish Civil War-1930s)**

The origins of the Valencian cooperative movement in the 19th century were linked to the agricultural union movement. Cooperatives in such region have more than 100 years of history (in contrast to Almería in which the majority were set up in the 1970s and thereafter).

Valencia F&V cooperatives were constituted and began to develop an important export sector linked to the orange trade. Local cooperative banks or credit sections within the cooperatives financed such investments as ordinary banks would not provide adequate financing. As Spain did not take part in WWI the sector continued to thrive and leveraged its ability to continue trade unhindered. The Spanish Civil War (1936 – 1939) meant the destruction of most economic activity.

## **Organizational design and the re-emergence of the cooperative form and institutions (1940s until the 1980s)**

After the Spanish Civil War the F&V sector was re-activated and commenced its period of growth and maturity. Valencian farmers are able to grow 3 crops per year without the use of greenhouses due to the fertile land and favourable climate. Well developed roads and railways (since the mid 19th century) and also the granting of export permits during the time of the Franco dictatorship allowed Valencia to import product from other areas, such as Almería, for resale (Cazorla Sánchez, 1999). It also had the most important seaports. After WWII family firms carried out commercialization and small family farms were the unit of production. Citrus production extended along the coast in a local regional production system of SMEs (Gallego, 2009) creating a network based on sector and territory.

This initiative was supported by founders of the first cooperative bank and politicians, along with Acción Católica, encouraged the setting up of a cooperative in each village as a method of rural development. 70% of Valencian cooperatives are in towns with less than 10,000 inhabitants (García Martínez, 2006). Long term territorial connection is inherent in Valencian agricultural cooperatives (Gómez López, 2004). Part-time agriculture was also developed (Gallego and Lamanthe, 2011). Thus, in addition to geographical and climate conditions mentioned above, there was also an organizational-relational character, echoing the structure of Almería's local production system or cluster. However, in the case of Valencia's production system, commercial logic dominated over productive logic — the reverse of what can be said of Almería at such time, and arguably, until recently.

In the 1970s other areas in Spain such as Andalusia and Murcia began to produce F&V, utilizing the commercial channels established by Valencia. Although there was the existence of a cooperative fabric since the beginning of the 1900s, it was not until the 1960s that a strong cooperative initiative took hold (Gallego and Lamathe, 2011) due to the scant cooperative spirit (Abad, 1991). According to Font de Mora (1998) the cooperative regenerative initiative occurred when the sector stumbled due to a worsening in the bargaining position. During the 1970s a number of second-tier cooperatives were created in order to increase bargaining power. Anecoop, the leading second-tier cooperative was constituted in 1975, representing a forward integration process that resulted in an important improvement in cooperative bargaining strength against the large commercial distributors. In 1972 the Spanish government provided aid for cooperatives through support to agricultural producer groups (Law 29/1972). However, in the opinion of Álvarez (1984) this aid was both insufficient and restrictive, imposing geographical restrictions, although it did advance the cooperation amongst cooperatives and hence the creation of strong second-tier cooperatives in Valencia.

### **Growth (1980s to 2000)**

In the 1980s two important developments occurred: in 1986 the entrance of Spain into the European Common Market, and in 1985 the creation of the Valencia cooperative law. This law served to provide a social (encouraging the development of cooperatives in agriculture) and economic (a policy of concentration of offer) impetus. The Institute of Valencian Agricultural Cooperation was created allowing representation and influence in agricultural policy and with the Valencian government (Gallego and Lamanthe, 2011). In this time there was a noted advancement in the volume of cooperative commercialization and collaboration among cooperatives was also supported. During the 1980s and 1990s

there was a process of mergers in keeping with general trends and political pressures in Valencia and Spain (Gómez López, 2004).

From the mid 1990s the regional government was not considered to be pro-cooperative, focusing more on production than on commercialization (Gallego, 2008). Certain agricultural unions in the Community of Valencia did not consider that cooperatives were the solution to small landholdings and rejected the channeling of CAP through the POs (Aguado, 2005). Other unions did so (Brusca, 2005) but this lack of consensus did not favour their creation, nor aid in presenting a united front against falling prices. During the 1980s and the 1990s the large supermarkets dominated the market, leading to the closing of small companies and a restructuring of the sector, first private than cooperative (Gallego and Lamanthe, 2011). Faced with low prices the cooperative members had a lack of confidence in the cooperative form and created problems in the growth of POs (García Álvarez-Coque et al., 2007).

It is in this context that the most prominent cooperative, Anecoop, provided the impetus for organizational and cultural change, both in Valencia and in Spain (Gallego and Lamanthe, 2011). Through the unification of product and with an emphasis on quality, implementing a policy of constituting local cooperatives (Font de Mora, 1998) it stimulated the modernization of the sector in general. Anecoop provided training and administration services as well as R+D+i, instilling institutional confidence in the cooperative model, that is, 'a belief in cooperative principles, or at least the acceptance of the culture of professionalism within the cooperative paradigm' (Gallego and Lamanthe, 2011, translation Giagnocavo).

### **Maturity (2000-onwards)**

Faced with competition, including from other areas of Spain utilizing irrigation methods, the Valencian sector experienced instability and low profitability. In order to confront changing markets conditions, Valencia reformed its cooperative law (Ley 8/2003) in 2003 to provide for more flexibility in cooperative bylaws and statutes. Changes included reduction of set up costs, support for creation and development of agricultural cooperatives, incentives for members to join, provisions for capital guarantees, and in order to promote further integration, regulation of cooperative groups.

As a result of the challenges faced by Valencia F&V cooperatives, vertical integration processes and strategic alliances were seen as a logical response by policy makers. However, successful integration processes require management which is capable of implanting strategic management techniques. Many Valencian cooperatives continue to have non-professional managers. Since larger size cooperatives involve a more complex management structure, Valencian cooperatives were found to not be prepared to adopt such structures given their resources and abilities (Campos i Climent, 2011). As a result strategic alliances were found to be more suitable in order to share resources and investments through cooperation. In 1990, Agriconsu, owned by Anecoop, was created whose purpose is the processing of F&V product. It is a case of forward vertical integration. Pending strategies for Valencian F&V cooperatives include basing their competitive strategy in product differentiation without compromising cost reduction; and as a corporate strategy, basing their competitiveness in cooperative alliances.

Faced with the lack of profitability in the traditional citrus sector, 14 cooperatives united in 2009 in order to create the single product Grupo Persimon. Strategy leans strongly on the

exports, which in 2012 rose to 3,295 million Euros, of which 17% corresponded to vegetables and 62% to citrus, with other fruits representing 21%. Valencia F&V exports have increased in the last 5 years, increasing the weight in relation to total agricultural exports from 86% to 90%.

Significant reorganization of cooperative institutions has occurred. Traditionally, Valencian F&V cooperatives had local cooperative banks and their own credit sections as strategic partners. They were a specific financial tool for Valencian F&V cooperatives and farmers, created by the Valencia cooperatives and farmers in the late 19th century at a local (Campos et al., 2006). Over the years, these local cooperative banks and credit sections went through various difficulties and mergers. The last resulting Valencian group Cajas Rurales del Mediterráneo was integrated into the cooperative bank of Cajamar, based in Almería.

During 2012 provincial level federations integrated into an autonomous community level organization and three work groups have been developed to provide sectoral support to F&V cooperatives on Common Market Organisation (CMO) regulations and reform. Anecoop continues to dominate the Valencian cooperative sector. It is the largest F&V cooperative in the Mediterranean and carries out F&V joint commercialization of the production of 76 first-tier cooperatives located mainly in Valencia and in other locations in Andalucía, Murcia, Castilla-León and Navarra. The Anecoop Group is made up of eight international companies situated in strategic F&V market points. In 2012 its turnover was 508M€ with a commercialization of 675,771 tons (Anecoop website). It has four Spanish delegations: Valencia, Sevilla, Murcia and Almería. Collaborations, both scientific and business are quite extensive in Valencia. The degree of collaborations with both cooperatives and IOFs as well as internationalization and commercialization is the most advanced in Spain. The key to their concentration of offer is a Spain brand. For example, Anecoop sells from 6 different autonomous communities, through the simplicity of one contact. In such case the commercial department is integrated in such a manner that there is no competition between neighbouring cooperatives from other regions, but rather with other countries.

#### 4 Structure, strategy and regeneration by comparison

- (1) *What are the differences in strategy and structure between Almería and Valencia?*

Table 1 sets out comparative trends (evolution) for the two areas and Table 2 summarizes the differences in structure and strategy discussed above.

- (2) *How do path dependency and dynamic life cycle approaches help to explain the role of cooperatives and the success and/or failure of these two F&V areas?*

**Table 1.** Comparison of basic Almería and Valencia cooperative trends

	Almería			Valencia		
	2000	2012	Evolution	2000	2012	Evolution
Cooperative F&V	1474	1866	27%	-	-	-

	Almería			Valencia		
	2000	2012	Evolution	2000	2012	Evolution
Turnover (M€)						
Value of Production F&V (M€)	1521	1546	2%	1852	1822	-2%
Area (ha)	48,477	47,656	-2%	38,7781	347,603	-10%
Production (tons)	2,741,546	3,306,911	21%	4,632,700	3,995,561	-14%
Exports (tons)	1,324,057	2,031,786	53%	3,594,065	4,209,344	17%

Source: Coexphal, CAP [2012](#), ICEX.

**Table 2.** Comparison structure and strategy/almería and Valencia

	Almería	Valencia
Type of agriculture	Intensive greenhouse, very reliant on technology	Intensive open air, medium technology
Agricultural conditions	Semi arid Drip irrigation Poor soil 10 months greenhouse season	Rainfall but not abundant Fertile soil 3 natural growing seasons
Approximate beginning of market oriented agricultural activity	Late 1960s	13 <sup>th</sup> C.
Approximate beginning of agricultural cooperative formation	1970s	Late 19 <sup>th</sup> C.
Range of product	F&V focused	F&V, citrus, rice
Existing commercial/export infrastructure at time of cooperative development	Poor/non-existent	Well developed
Farm size average (ha)	1.8	5.2 although many 0.25

	<b>Almería</b>	<b>Valencia</b>
Integration in the food chain	Low to intermediate	Intermediate
Cooperative current market share	50% (growing)	50% (declining)
Geographic Proximity of Farms and Cooperatives	Very close proximity, cooperatives competing in same area	Farms spread out geographically in the region and cooperatives in each village
Predominant tier (grade)	First-tier	Second-tier
Professional Management	Very common	Common in only larger cooperatives, many smaller cooperatives managed by members
Purpose of coops	Mostly single purpose	Some multi-purpose
Full time/part time farmers	Full time	Full time and part time
R+D+i	Supported by cooperative sector, lack of other research centers until 1990s	Reliance on public sector and large cooperative initiatives
Internationalization	Very low	High for larger cooperatives
Collaborations	High, with public and private actors, research institutions, distributors,	Very high,
Financing	Large coop bank-allowing debt financing as opposed to member equity	Small in-house credit sections which have been phased out-credit coops integrated with Almería credit coop
Number of Cooperatives	100	102
Percentage of CAP subsidies/turnover	2–3% (with exception of 2011)	5–6% (with exception of 2011)

	<b>Almería</b>	<b>Valencia</b>
Flexible cooperative legislation (allowing flexibility in bylaws/statutes, non-traditional ownership, voting and financing+various incentives)	2013	2003

The dynamic lifecycle framework helps to explain the initial logic of economic justification for cooperatives of both F&V producing areas on micro and meso levels, the formation of a path and the various stages in their growth which has required action at choice events, both from specific cooperatives and populations of cooperatives in general. On a macro level, institutions which have had an effect on cooperative structure and strategy can also be shown to have had an organizational founding rational and have changed due to both endogenous and exogenous factors.

The parallel lifecycle development of and relationship between the agricultural and credit cooperatives in Almeria has been crucial to the success of its cooperatives. The credit cooperative financed R+D+i, assumed financial and experimental risk and acted as a catalyst for development and change management. The agricultural district or cluster model of Almería created a virtuous cycle of productivity and allowed reinvestment and repositioning. Almería's F&V sector commenced later than other regions, such as Valencia, and resulted in a lack of more sophisticated commercialization, concentration and growth strategies. In its short lifecycle, it has adapted at the farm level, the micro level and the meso level, constantly changing at a rapid pace in response to both endogenous and exogenous factors in the last 50 years. The founding or economic rational was stark in its clarity, and institutional and organization design determined by the close proximity of the farms.

Valencia cooperatives have been functioning for much longer and have a more prolonged, though interrupted, lifecycle. Their founding conditions had a significant effect on their advanced export and internationalization processes. In 1975, when cooperatives in Almería were just beginning, Anecoop was formed by the first-tier cooperatives,. The early integration of first-tier cooperatives into second-tier cooperatives at such time resulted in a level of internationalization and commercialization that was novel in Spain. The cooperative movement was re-born out of a pre-existing F&V production sector, echoing Schneiberg ´ s observation of the emergence of parallel but distinct cooperative enterprise forms. As a result, Valencian cooperatives were able to absorb and implement innovative practices much earlier than other areas. The Valencia first-tier cooperatives were organized on the basis of their strong territorial connection, such towns spread out across the autonomous community of Valencia. Its cooperatives remain structured as village cooperatives maintaining their socio-economic logic. However, this did not preclude the ability to innovate and renovate when necessary. A strong second-tier cooperative was economically justified to deal with market failure and equally so to deal with state failure and the lack of support for the cooperative business form. As well, when the traditional cultivation of citrus failed to produce adequate results for farmers, there was a both a product and market re-orientation. The central role of organizing cooperative institutions supported this ability to renovate. This path dependent feature still exists although it is



dependent on small towns remaining both populated and productive, which may be a challenge as farmers age and towns become less populated. This situation is but one example of a 'selection event' where a variety of choices are possible.

Likewise, Almería remains on path with respect to first tier cooperatives, which have followed various growth strategies, although there has been the recent arrival of a successful second-tier entity. In such a compressed lifecycle, the farmers have had to go from the phase of economic justification to maturity in the space of few decades, as opposed to the few centuries of Valencian agriculture. Along the way, cooperative institutions have guided such phases, helping to determine and to put in place choices required to meet both exogenous and endogenous challenges.

The different histories and lifecycles of the two regions, most notably the founding logic and organizational design, have meant that there has been little collaboration in spite of the fact of evident synergies, although this is changing due to mature markets, perhaps prompting both areas to consider a recombination in the future.

An important difference at the meso level has been the role of the dominant cooperative entity. In the case of Almería, the cooperative bank played this role and was the prime mover behind the organizational design at the micro level and a catalyst for dynamic capabilities and the impetus for change. In Valencia, Anecoop and the second-tier cooperatives performed this function, maintaining the small cooperatives in the village.

Looking to the macro level in Spain, regional governments prefer to maintain control over and take credit for agricultural law and policy and aid. This situation historically reinforced atomization and regionalism in cooperatives and discouraged a broader cooperative business perspective. Valencian cooperative law and policy encouraged the creation of second-tier cooperatives as a strategic response by the first-tier cooperatives to meet the progressive concentration of demand and also to face the challenges of internationalization, without their members losing their territorial connections. However, differences in first and second-tier cooperatives in these two regions are not due to regulatory or policy measures, given that both regions were subject to the same national cooperative legislation. The regional legislation was introduced (Andalusia in 1982 and Valencia in 1985) long after the first and second-tier organization design was settled. Rather, the respective economic rationals based on territorial logic created a path for each area. The dynamic capabilities which have been evident in both Almería and Valencia can be found in the cooperative institutions and the relationship with their members (whether farmers or other cooperatives). Examples included the creation, dissemination and implementation of such innovations as integrated pest management and other alternative agricultural technologies, reorientation in both markets and products, professionalization, and collaborations. Exogenous factors such as entrance into the European Common Market were met with a cooperative response, thus allowing repositioning and avoiding decline or inertia.

## **5 Conclusions**

While differences exist in terms of structure and strategies, as described above, not to mention history and institutional conditions, both areas share common challenges along their respective lifecycles. These problems are at both a local, regional and international level and are rooted in institutional, political and economic factors.

During the phase of Maturity, major challenges have been seen to include the unequal bargaining power of the distribution and global competition. The production of quality product, food safety and security, traceability and the development of added value products has been realized. However, the ability to capture this value up the supply chain is an outstanding matter. In Almería this is even more so given that it does not have the logistics and investment in infrastructure to reach other European and international markets to the same extent as Valencia. Thus far, to circumvent such inertia, cooperatives have chosen repositioning by adopting strategies of export and shifting away from commodities or recombination by entering into strategic alliances, collaborations and integration. Collaboration between cooperatives and IOFs, internationalization, investment in R+D+i, and having a management in place (either at the cooperative firm level or at the cluster level) such that cooperatives can leverage the strengths and capacity of their members and local economies in meeting external challenges have been as important in cooperative success as policy dictating cooperative size or structure. The dynamic lifecycle though, does not force us to choose an 'either/or' situation. It allows us to separate these choices into the phases of the lifecycle, the level at which action is taken (micro, meso, etc.) and also to appreciate the interaction between these levels. The 'selection event' as well does not signify failure or decline, but rather the opportunity to regenerate and harness cooperative capabilities.

The strength of the well-managed cooperative business form has been shown to be capable of regenerative solutions and flexible enough to make room for a diversity of cooperative enterprise structures and strategies. Cooperatives characteristics can be seen as a source of dynamic capabilities. In our case study we have found that both Almería and Valencia F&V cooperative sectors have been able to respond to crises and the need to innovate technologically and renovate organizationally. To resolve the issue of size, or any other 'selection event', and the appropriate 'choice' which must be taken by certain cooperatives in Spain in the relevant stage of their lifecycle, it is unhelpful to seek solutions in the simplistic, IOF logic of market power = firm size. This logic ignores the very *raison d'être* of the historical, structural and strategic basis of cooperatives. However, if we approach the 'choice' of size instead within the cooperative dynamic lifecycle framework, taking into account the inter-relation between various levels of institutions, the discussion will be more nuanced and the analysis more sophisticated.

## Footnotes

<sup>1</sup>It should be noted that Valencia is an autonomous community and that Almería is a single province within the autonomous community of Andalusia. The second-tier cooperatives of Valencia, were organized on an autonomous community level and the first-tier cooperatives of Almería, on a provincial level.

<sup>2</sup>It should be noted that this was a draft paper, but is published online by various sources, cited and widely circulated, hence mention is made.

<sup>3</sup>Bijman et al. (2012a) noted that federated or second tier cooperatives are important in sectors and regions with many small cooperatives, due to the fact that they can obtain economies of scale and bargaining power that small cooperatives cannot. These authors also argued, based on a theory developed by Søggaard (1994) that as first tier or primary cooperatives become larger and more directly involved in marketing their products, the federated cooperative model tends to disappear in the long run. This was also pointed out

through a case study on the demise of the Dutch cooperative Cebeco (Bijman et al., 2012b). While this is a not foregone conclusion (i.e. first or second-tier structures may be path dependent and/or function for other reasons) future mergers of Spanish cooperatives may test the longevity of second-tier structures.

<sup>4</sup>In 2011 the Almería F&V production was 44% of Andalucía (55% in vegetables) and 14% of Spain (22% in vegetables). It represented 10% of the total value of Spanish agrarian production (20% of value of vegetable production) and 30% in Andalusia (52% of value of vegetable production (MARM, 2011). In Almería in 2012, F&V production represented 95% of agricultural production (CAP, 2012).

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