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## Cooperative Agribusiness History: Organizational aspects for internationalization and the Expocaccer case study

### *Abstract*

The present study addresses the absence of strategic management and efficient coordination of activities, which currently is a common scenario for Brazilian agricultural cooperatives. If the cooperation enforces these elements, it results in capitalization for the cooperative and valuation of any Brazilian agricultural commodity for export. This study intends to present a strategy for product valuation employed by one of the main Brazilian coffee cooperatives in order to stand out among the national and international environment of coffee commercialization. Additionally, the process of strategic reorganization of the internal structure of the cooperative over time revealed that the cooperative adopted actions aimed at internationalization, which places our research object under theories of organization and Business History as a source of interpretation of this reading.

**Keywords:** Business History; Coffee Cooperatives; Expocaccer; Cerrado Coffee; Strategies

### 1. Introduction

Historically, Brazil has been known for its capacity to produce and export commodities. There may be a certain comfort - in the sense of stagnation - of the country within this profile.

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Zylbersztajn (2002) points out those cooperatives, like other Brazilian organizations, have been satisfied with the role of supplier of undifferentiated products. This is relevant when thinking about the challenges of Brazilian agribusiness. The more value is added, the more protected the product becomes, and thus more strategies are requested to add value to the national commodity product. Strategic alliances with foreign markets can benefit Brazil in several ways, including the promotion of the industrialization of the exported product and the facilitation of access to foreign markets, due to the vast insight shared between the parties.

The representative bodies of cooperatives in Brazil still lack in national policies and actions that promote these associations between national and international organizations and that focus on the valuation of the Brazilian agricultural product. To this end, the Organization of Brazilian Cooperatives (OCB) could use its permanent international missions, and we could count on the support of diplomatic missions and agricultural attachés<sup>1</sup> in promoting national products and cooperatives. A Brazilian coffee cooperative located in the city of Patrocínio, in the Brazilian state of Minas Gerais, distinguishes itself from the usual scenario of coffee marketing due to its marketing choice: the use of a label of origin.

Under this perspective, this article aims to understand the following question: how can a Brazilian commodity cooperative advance its internationalization process? Considering that the internationalization of agricultural cooperatives goes through several stages, which will be discussed throughout this study, the general objective of this article is to raise aspects of the internal organization of the cooperative and external factors that influence in its internationalization stages. Especially considering consolidation of internal organizational

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<sup>1</sup> The attaché (“adido agrícola”) acts in the opening, maintenance and expansion of markets for Brazilian agribusiness, contributing to the generation of foreign exchange and jobs in Brazil. Available in: <<http://www.agricultura.gov.br/noticias/governo-define-paises-de-atuacao-dos-adidos-agricolas-brasileiros-1>>. Retrieved 15 Nov 2017.

structure, regarding business model, strategical planning for long time development, cooperative members and employee behavior, would the Brazilian cooperatives be prepared for internationalization?

From the theoretical point of view, this study is supported by theories of organizations and Business History. Methodologically, this study presents a qualitative analysis of research, using secondary data to compose the theoretical basis on the internationalization of cooperatives. Two case studies done in the past, which address issues related to the Minas Gerais Cooperative, were also consulted: one from the year 1997<sup>2</sup>, which portrays the moments that preceded the creation of the cooperative, and the other from 2016<sup>3</sup>, which explores the theme of the Appellation of origin label of the “Cerrado coffee”.

Additionally, primary data from the cooperative were consulted via the website and documents provided by cooperative employees. Much of the information about the cooperative was obtained from on-site visits of the authors to the cooperative. The visits occurred during the year 2016, all of which were performed monthly. In addition to these sources, other information were obtained through the participation of the authors in a strategic planning meeting of the cooperative, held from February 17 to 19, 2017, in the city of Araxá, also in the Brazilian state of Minas Gerais. This meeting was attended by about 100 participants, among them: cooperative employees, cooperative members, commercial partners, and representatives of the Cerrado Federation of Coffee Growers (*Federação dos Cafeicultores do Cerrado*).

After this introduction, the following sections address, respectively: (2) The cooperative agribusiness history: some concerns and challenges, connecting the aspects of the consolidation of organizations into the Brazilian agricultural scenario, characteristics of the relationships

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<sup>2</sup> See Saes and Jayo (1997)

<sup>3</sup> See Giordano (2016)

between cooperatives and cooperated members, and the adaptability and flexibility strategies in agri-systems; (3) Internationalization as a strategy and a challenge for agricultural cooperatives, considering particular aspects of this kind of organization; (4) Methodology of the research; (5) Strategies Through Time: The Cerrado Coffee and the Expocaccer case study (*First step of field research – secondary data collection*), in which the historical aspects of the development of the Cooperative and the explanation of the “Denomination of Origin” label are exposed; (6) Strategies Through Time: The Cerrado Coffee and the Expocaccer case study (*Second step of field research – primary data collection - the internal restructuring*), exposing the main topics identified as fundamental to the success of the cooperative and aspects of the challenges of the Expocaccer cooperative towards an internationalization process. (7) some conclusions for the internationalization process for cooperatives in Brazil drawn by the authors.

## 2. The cooperative agribusiness history: some concerns and challenges

The path of the Business History area, starting from the environment of economic history, has developed an autonomous research and knowledge network, in a closer dialogue with economists and administrators than with historians. According to [this] argument, it was during the second half of the twentieth century that Business History found its true vocation, constituting itself as a specific area of other spheres of research, continuously improving its method and its theoretical basis for research. This path, however, did not occur without losses: as the construction of its identity took a more defined format, through the Economics of Organizations, the research was distancing itself from its origins, i.e., from Economic History (Gonçalves and Saes 2017)

After Alfred Chandler’s remarkable book *Strategy and Structure* (1962) had its origins in Business History rather than in Organization Theory, the idea that economic efficiency is not independent of internal organizational structure became clearer (Williamson 1981). Thus, we can interpret that the phenomena which involve organizational strategies through time is observable from the aspects of a strategic (micro)economic sense aside from the narrative

history of the organizations. In this case, this can be done by observing the agricultural cooperatives strategies through time.

From the point of view of the Economics of Organization authors, the framework of significant changes and adjustments to the strategies of the organizations that operate in agroindustrial systems was consolidated at the beginning of the 21<sup>st</sup> century. This framework can be summed up into several specific assumptions and the **consolidation of organizations** is one of them. Regarding agricultural cooperatives, this consolidation is accompanied by evidenced fragilities in the **relationships between cooperatives and cooperated members**<sup>4</sup>. Thus, in order to deal with these assumptions and prevail, these organizations had to unveil **adaptability and flexibility strategies**<sup>5</sup> through time.

Consolidation of organizations.

The corporations operating in all stages of agroindustrial systems, as in other sectors of the economy, faced a marked process of consolidation. The trend does not differ from that observed in other sectors, and it affects each segment of agricultural-based systems. According to Sikuta and Cook (2001), both the consolidation and the growth of coordination throughout the agrifood sector are rapidly reshaping the role of agricultural cooperative organizations. The increase in concentration, both upstream and downstream, widens the spectrum of the cooperative's traditional role in counterbalancing market power. Cooperative organizations present an advantage when faced with the increasing demands of coordination from the players in the whole agrifood system.

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<sup>4</sup> See Pozzobon, D. M., D. Zylbersztajn, and J. Bijman (2011).

<sup>5</sup> See Zylbersztajn (1995); Gonçalves (2016).

In Brazil public policies encouraging the creation of global corporations in specific sectors have emerged, such as the animal protein area<sup>6</sup>. The consolidation of large groups that specialize in production can also be observed in the agricultural input industry and the processing industry, in addition to the transportation and logistics sector, and agricultural production activity.

The adequacy of agricultural-based systems depended on the existence of economies of scale to be exploited. The trend does not mean that smaller organizations have not emerged, nor that they are not structured. For example, the expansion of the grain and pork scale exploitation reflects the search for a potential cost reduction in the production process. The same is not as evident in other agricultural systems such as fruit and vegetables farming. The impact on the concentration of industrial sectors is remarkably evident, especially on suppliers of inputs targeting plant and animal health markets, and on the processing of primary products, which can exploit the scale gains present in the R&D and distribution stages. Although agriculture presents scale gains in some cases, it is also increasingly exposed to the concentration results in the input and processing industries, which suggests the relevance of collective organizations, cooperatives, and other associative forms as a mechanism of market equilibrium.

Studies performed by Hendrikse and Oijen (2004) point out that the incorporation of the variable "governance structure" in diversification research seems to be a fruitful direction for future research. The initial impression is that cooperatives diversify more in unrelated activities than in related activities, different from other types of organizations. The problem of horizon<sup>7</sup>, or long-term investment, is related to diversification.

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<sup>6</sup> One example is the support of BNDES to companies such as JBS, which has generated debate among the press and specialized forums.

<sup>7</sup> This will subsequently be explained.

*The relationship between the cooperative and the cooperative member.*

Cooperative members play the role of both users and owners of the cooperative. The contractual forms found between associates and cooperatives are rather tenuous; in addition to the free entry and exit of the members (Bialoskorski Neto 2003), the associate is able to transact his product with other companies, incurring in infidelity with the cooperative. While in a capital company, the right of decision taken by the shareholders depends on the number of shares each of them holds, while in the cooperative everyone has the right to one vote, respecting the principle of equality. Additionally, the "leftovers" of the current year fit in with each "associate", while in the capital companies, the "profits" of the entrepreneurial activity are attributed to each "owner" or "investor" (Bialoskorski Neto 2003).

Looking at the future of agricultural cooperatives, Hendrikse and Veerman (2003) understand that needs change over time, and market needs are very difficult to implement because the individual interests of members are dominant in relation to the needs of the cooperative. Many cooperated members may be accustomed to relatively stable situations, while changes may affect both their situation and the cooperative. This raised the problem of how to meet the interests of the cooperative in the long term and the interests of the members of the cooperative in the short term.

Sykuta and Cook (2001) list five main property rights issues that emerge from the relationship between the cooperative member and the cooperative: the "free rider" problem, the horizon problem, the portfolio problem, the control problem, and the problem of the costs of influence. The "free rider" problem occurs when gains from cooperative actions can be accessed by people who did not invest in these gains, such as recent associated members or non-cooperatives members (Sykuta and Cook 2001). The horizon problem is related to the cooperative members'

rejection to long-term investments, since the strategies require in the immobilization of capital to be frozen for long periods of time (Zylbersztajn 2002).

The portfolio problem stems from the horizon problem, due to the preference of short-term investments to the detriment of long-term investments, which incurs in more risk. The investment portfolio of cooperatives does not necessarily reflect the interest of all members, but they cannot withdraw nor reallocate their investments – also regarding specific assets (Zylbersztajn 2002; Sykuta and Cook 2001). The control problem, in turn, reflects the fact that control and strategic decision are in the scope of the same member in the cooperative, occasionally resulting in inefficient management. The gains could be obtained by separating ownership and control (Zylbersztajn 2002).

Finally, the problem of influence costs refers to decisions that affect distribution among members. The costs are greater when there is a wide range of interests among group members, but the potential gains also increase. Additionally, it is caused by the influence of those who hold executive positions disputed by the members of the cooperative and by the non-participation of the cooperative in the assemblies and commissions. (Sykuta and Cook 2001; Zylbersztajn 2002.).

Regarding the relations between the cooperative and the cooperative as contractual relations, the cooperative may make investments through the promise of product delivery by the cooperative member. In turn, they may either break the agreement (or contract) by negotiating their product with another organization or remain faithful to the cooperative via incentives. Zylbersztajn (2002) suggests that these incentives may be penalties associated with breach of contract, in addition to other formal and informal mechanisms that can be complemented in order to encourage the loyalty of the cooperative member to the cooperative.

*Adaptability and flexibility through time: plasticity.*

Adaptation can be considered a central problem for economic organizations. This is a view shared by authors such as Barnard (1938) and Hayek (1945). Williamson (2008) argues:

Which transaction costs are the more important? Interestingly, the economist Friedrich Hayek (1945) and the organization theorist Chester Barnard (1938) were in agreement that adaptation was the central problem of economic organization, albeit with differences. Hayek focused on the adaptations of autonomous economic actors who adjusted spontaneously to changes in the market, mainly as signaled by changes in relative prices. The marvel of the market thus resides in 'how little the individual participants need to know to be able to take the right action' (Hayek 1945, 526–527). By contrast, Barnard featured coordinated adaptation among economic actors working through administration.

In addition, Williamson (2008) further points out that Chester Barnard's work as highlighted aspects of hierarchy that go beyond the presence of formal organizations, including those informal and spontaneous. The author specified that these formal organizations carry out coordinated adaptations of the 'conscious', 'deliberate', 'purposeful' type. Barnard (1938) elaborates on the relationship between hierarchy and formal organizations claiming that one does not exist without the other. Hayek (1945) demonstrates in his study that rapid adaptation to change may be a solution, and this adaptation is grounded in knowledge developed throughout the system and available to all individuals who belong to it.

Even in agricultural contracts the idea of adaptation is present: "The historical evolution of contracts shows the adaptation of their design for the purpose of the economy of the transaction costs" (Zylbersztajn and Nadalini 2007). Zylbersztajn (1996) argues that if disturbances can be anticipated, contracts may be designed with provisions for adaptive actions. This is because both technological changes - which affect the levels of asset specificity and/or uncertainty in the transaction - and changes in the institutional environment can affect the conditions under

which the transaction is occurring, in turn affecting governance costs (Zylbersztajn and Farina 1999).

According to Zylbersztajn and Farina (1999), supply systems operate in environments characterized by changing levels of asset specificity. These assets are associated with different competitive strategies which can affect transactions throughout the system, such as vertical differentiation, market segmentation, innovation, stock formation, among others. After a disturbance, the adjustment will depend on the level of a specific asset and the cooperation between the parties. Zeitlin (2007) assigned the term "plasticity" to the ability of the arrangement to adapt to external shocks. Thus, the arrangement shapes itself into the new imposed conditions.

The levels of asset specificities may, in turn, influence the flexibility of the organization, or the arrangement, and its adaptive process. The organization of institutions may still provide support for adaptive arrangements. Williamson (1991) infers that there are two types of adaptation: one that does not require intervention, is market-dependent and in which adjustments occur at no cost; and another, from the organizational point of view, that has costs associated to it and a need for hierarchy.

It is assumed, therefore, that more flexible arrangements have greater plasticity since they adapt quicker to unexpected shocks. The evident pursuit of internationalization as a strategy pursued by agricultural cooperatives was a step forward in agricultural-based systems, and the next topic will discuss this strategy.

### **3. Internationalization as a strategy and the challenge for agricultural cooperatives**

The internationalization trend in agricultural-based systems, which is associated with consolidation, is moving towards the search for new markets, thus expand the specialized

performance of large corporations. There are other incentives for internationalization, such as: the search for increasingly scarce agricultural areas; the entry of financial capital into the purchase of assets - especially land; and the need for supplies in countries that have lost their characteristic as primary producers; all of these incentives have made agricultural-based systems naturally transnational. Zylbersztajn (2002) claims that cooperatives are very compelling to the originating companies and the corporations producing agricultural inputs, because they can solve the problem of horizontal coordination of individual suppliers by efficiently coordinating a large number of contracts, thus reducing sales costs to producers of inputs and acquisition costs to exporting companies.

Internationalization, seen as a strategy, may take the shape of different partnerships arrangements and associations, depending on the difficulty degree of entry into the target markets. The barriers found are present both in access to capital and access to markets, as well as in the complexity of the legal and economic environment. Agricultural-based systems do not only connect processors and distributors of food, fiber, and energy on a global scale, but they also improve organizations that have expanded to outside their countries of origin. Thus, these systems are no longer associated with particular countries, but they are seen as part of complex contractual mechanisms, which involve actors - present in different regions throughout the world - who interact among themselves in order to generate value.

Food processing companies have specialized in supply chain mechanisms in order to guarantee the supply of raw materials in both the quality and quantity that is desired by the markets they serve. Under this scenario, some cooperatives have achieved their insertions in stable channels, forging long-term partnerships in specific markets<sup>8</sup>.

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<sup>8</sup> An example of this trend is Cooxupé, the largest Brazilian coffee cooperative and a major supplier to the European coffee market.

As a natural consequence of its success in the international sector, some strategies, previously practically ignored, began to gain relevance, among them, quality control and food safety, which are concerned with international consumer trends and the problems associated with protectionism tariff or especially non-tariff. Aspects of market regulation have become part of the agenda of organizations interested in participating in foreign markets in a period of protectionist growth, as characterized by the late 1990s and early 2000s (Zylbersztajn 2002, our translation).

In most countries, cooperatives are legally restricted to national operation. Inter-cooperation can reduce the costs of transaction for the system, increase market power, or even add more value to the participants (CECHIN, 2014). Zylbersztajn (2002) emphasizes how important the exploration of the role of inter-cooperative actions is, because it could enable strategic associations outside Brazil. This perception is also shared by Cechin (2014), who affirms that inter-cooperation can minimize competition difficulties for individual cooperatives with large agribusiness markets. In 2008, in a successful strategy, several cooperatives from Paraná jointly exported 3,600 containers of frozen meat to the Netherlands, saving R\$5 million (approximated U\$1.5 million) (Setti 2011). The formalization of inter-cooperation in consortia represents a strategy aimed at increasing the bargaining power of cooperatives through a pool of purchases, as well as guiding the price of inputs in the market, with the objective of reducing their costs and dependence on large multinational companies that control the sector.

#### 4. Methodology of the research

The present research, performed under a qualitative approach, is based on a case study of a Brazilian coffee cooperative. The analysis is present in two parts, each focusing on one of the two steps followed to collect database.

The first step, a secondary data collection, was performed in order to understand the path of the cooperative over time. The two case studies done in the past with the cooperative were

consulted: one from 1997<sup>9</sup>, which portrays the moments that preceded the creation of the cooperative, and the other from 2016<sup>10</sup>, which explores the theme of the country of origin labeling of the “Cerrado coffee”. Also, data from the website of the cooperative were consulted<sup>11</sup>.

The second step was an action research. In 2012, we were invited by the cooperative to develop a consulting project in order to organize the strategic planning actions for the next four years. During this visit, we noticed that throughout the last 20 years, the cooperative presented organizational and management challenges, in addition to problems that resemble those from the 1997 scenario. The cooperative was advised to undertake our strategic planning. Then, in 2016, we returned to the cooperative and noticed that some internal restructuring was made according to the past strategic plan devised by the authors, but the organization still presented difficulties in several areas. The researchers accompanied the work at the departments of the cooperative for about one year – from March 2016 to March 2017 – in order to identify fragilities and to propose solutions to reorganize internal structure. After the problems were identified, data were analyzed, and a new plan to address the problems was developed and implemented. In March 2017, a new strategic four-year plan for was conceived and presented at a meeting held from February 17 to 19, 2017, in the city of Araxá, in Minas Gerais state. This meeting was attended by about 100 participants, and among them were cooperative employees, cooperative members, commercial partners and representatives of the Cerrado Coffee Growers Federation.

The following sections will present the main results achieved in this two-steps research.

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<sup>9</sup> See Saes and Jayo (1997)

<sup>10</sup> See Giordano (2016)

<sup>11</sup> See <http://www.expocaccer.com.br/>

### **5. Strategies Through Time: The Cerrado Coffee and the Expocaccer case study - *First step of field research – secondary data collection***

In the scenario previously described in the introduction section, the cooperative, that is, the object of this study, is inside an undifferentiated market of Brazilian commodities. The Expocaccer Cooperative is based in the Cerrado region, which is located on the Midwest region of the Minas Gerais state in Brazil. This region, which is comprised of 55 municipalities, accounts for 12.7% of Brazilian coffee production. The production area is of around 210,000 hectares, employs 4,500 farmers and has an average annual production of 5 million bags of coffee<sup>12</sup>.

In 1992, an innovative model of organization emerged in the Cerrado region: the Council of Associations of Cerrado Coffee Growers (CACCER). Until the 1970s, the region was only known for the production of beef cattle. CACCER arose with the common objective of valuing the quality of the coffee produced in the region. (Saes and Jayo 1997). In this way, CACCER became an articulator of strategic and marketing actions, as well as a reference in the technical and commercial advisory to the coffee producers in the Cerrado.

The history of the Expocaccer Cooperative, which will be further referenced in this article, is described in its first case study, performed in 1997<sup>13</sup>. Throughout its history, CACCER has encountered a lack of tradition and legislation over the protection and control of origin labeling in Brazil, in addition to the scarce financing sources for producers. Between 1990 and 1994, international coffee prices considerably declined to prices that averaged below production costs. In the city of Patrocínio (MG) in August 1992, the paid amount to the producer reached the mark of U\$44.90 per bag, while the cost of production in Minas was around U\$70.50 per

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<sup>12</sup> Information retrieved from <<http://www.cafedocerrado.org>>. Accessed on 09 Nov 2017.

<sup>13</sup> See Saes and Jayo (1997).

bag. This decline in prices was reflected both in the withdrawal of producers from the coffee farming and in the decrease in coffee quality.

However, the role of the Italian company Illycaffé is noteworthy. This company established, in 1991, the "Brazil Coffee Quality Award for Espresso", awarded to several producers in the Cerrado region, which in turn proved the established superiority of coffee in the region. CACCER thus began to use the contest as a marketing resource to promote the Cerrado coffee. In 1992, CACCER defined itself as "a limited liability company consisting of Associations and Cooperatives of Coffee Growers", which "in the fulfillment of its objectives, will operate as a non-profit establishment". The objectives of CACCER were directed to three areas of action: (i) to manage the marketing of Cerrado coffee; (ii) to act as a political representation channel; and (iii) to provide guidance to members in all aspects of their agribusiness.

One of the main actions of CACCER was the registration of the brand "Café do Cerrado" (Cerrado Coffee), launched in July 1993. It was a certification of origin (similar to a "Protected geographical indication - PGI"). The first batch of coffee with the "Café do Cerrado" brand, which totaled 1,400 bags, was exported to Belgium in December 1993, with a premium of about eight percent on the price that was then practiced for coffee in the region. The strategy of differentiation through brand also had a scale of quality standards for Cerrado coffee, in addition to regulation for the certification of coffee producers in the region.

Nevertheless, the most traditional solution to achieve the objectives of CACCER would be the establishment of a cooperative. As business expanded, CACCER began to work more closely with producers in coffee marketing. In 1994, CACCER operated future sales and exports of coffee in the name of its associates. This situation led CACCER to create, two years later, a center of cooperatives for Cerrado coffee named Expocaccer, which included three affiliated

cooperatives: Coocaccer Araguari, Coocacer Patrocínio and Coocaccer Núcleo Acarpa. The Expocaccer headquarters was established in the city of Patrocínio, in Minas Gerais.

Cooperatives had several advantages over associations in these commercial operations, such as lower taxes, access to Advances on Foreign Exchange Contracts (ACC) in export operations, and greater credit facilities, at least, under the possibility of offering guarantees over the loans. (Saes and Jayo 1997).

### *The “Denomination of Origin” label*

In December 1996, the Government of Minas Gerais, through Decree 38.559, established the regulations of the Certificate of Origin for the four coffee producing regions of the state of Minas Gerais: Cerrado, Jequitinhonha, South of Minas, and Mountains of Minas, named "Certicafé". This was the basis for the creation of the Cerrado Mineiro Denomination of Origin (DO Cerrado Mineiro)<sup>14</sup> label, later officially established in 2013. Although since 2005, the region has been recognized as an "indication of provenance", it was only in 2013 that the region was officially recognized as the first coffee-producing region to obtain this status for Coffea Arabica green coffee species and for industrialized beans or toasted coffee. Denomination of Origin (DO) is a form of collective protection of property rights, where there are rules for entry, exit, monitoring, and controls of the participants (Giordano 2016).

The DO label is managed by the Cerrado Coffee Growers Federation, also originated from CACCER (Expocaccer is an arm of CACCER, as well as the Federation), a non-profit organization composed of eight cooperatives, eight associations and one foundation. The presidents of the cooperatives of producers, form the board of directors of this Federation, which is a deliberative body of the internal and strategic decisions of the system. The

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<sup>14</sup> Similar as in English: "Protected designation of origin – PDO"

associations participate in the General Assembly and in the Institutional Committee of the Federation (Giordano 2016).

Accredited producers may use the DO mark in accordance with the rules to be followed by regulation, but generally this use is conditioned to the product packaging, physical facilities of the farm, media, and administrative documents. According to Giordano (2016), the label "DO Cerrado Mineiro" also offers the consumer a code similar to a QR-Code that allows them to identify information about the batch of coffee, and the certificates of origin and quality. Through short videos, the producer, their family, and the farm are presented to the consumer. It is also possible to trace the product, which is a requirement of foreign markets, such as the identification of the quality of the product and its sustainable production, which in turn provides information about environment and water care, ethics, and labor relations; all of which are also available through QR Code. The prices of products with the DO label can reach 10% more than the traditional market value for products without the label.

#### *Expocaccer - a history of challenges towards internationalization*

Around 1997, new problems emerged for Expocaccer. At that time, Coocaccer was responsible for managing warehouses, processing, and standardization of coffee, and Expocaccer - or its associates - commercialized the coffee. This way, once the exporter intermediation was eliminated, direct sales became commonplace for the cooperative. Partly due to Expocaccer's short existence, this direct selling still represented a very small percentage of the total commercialization of the region. The most important business carried out by Expocaccer occurred in June 1996, when the cooperative signed an agreement along with the Cafecol Argentina SA, a company which would represent Cerrado coffee in Argentina, Chile and in Uruguay (Saes and Jayo 1997).

In 1999, based on a strategic vision and with the purpose of better serving its cooperative and customers, Coocacer Patrocínio incorporated the Cooperatives Central, and began to adopt the business name of Expocacer Cerrado Coffee Growers Cooperative Ltd. (Expocacer Cooperativa dos Cafeicultores do Cerrado Ltda). Today Expocacer is the export channel of the Cerrado Mineiro region, for more than 30 countries, and 120 international clients.

As a large and structured cooperative, some problems emerged to Expocacer: the need for greater capital infusion and financing sources, similar to other cooperatives; the overload of the board of directors that created conflict between the growth of the cooperative and with the heavily traditional bureaucratic structures of the cooperatives; the loyalty of the cooperative members in the supply of quality coffee, given the investments done by the cooperative for the international commercialization of the coffee of the Cerrado and the search for actions and/or partnerships to expand commercialization to the domestic market segmented into niches for consumption of quality coffee (Saes and Jayo 1997).

## **6. Strategies Through Time: The Cerrado Coffee and the Expocacer case study - *Second step of field research – primary data collection - the internal restructuring***

A restructuring of the internal organizational processes was necessary to support the internationalization process. In 2012, we noticed that the cooperative had some problems, and thus we carried out a survey of the strengths and weaknesses of the cooperative. The following weaknesses were identified: (i) inadequate internal information flow (internal process and IT); (ii) failure to obtain information from the cooperative members; (iii) inadequate human resources area; (iv) reactive management; (v) need for professional qualification; (vi) lack of involvement and understanding of the team in relation to the company's business; (vii) need for succession for the councils of the cooperative; and (viii) need for budget review.

Therefore, the actions established in order to solve these problems were: (i) to simplify the information system and optimize its use; (ii) to improve the information capture process; (iii) to structure the human resources department; (iv) to implement a cooperative training program; (v) to prepare an action plan for the harvest; (vi) to create a profit sharing plan; (vii) to promote cooperative education; and (viii) to follow-up the budget process.

The aforementioned actions were put into practice and, in 2016, when we returned to the cooperative, the scenario was already different. The cooperative was more structured, but it still needed the support of the Coffee Federation for the use of the original label of the "Cerrado coffee". Finally, five main areas were highlighted in order to expose arguments for internationalization processes and to identify required demands of the cooperative to be successful on it: (1) loyalty of the cooperative members; (2) competition; (3) business model; (4) the internal environment; (5) the role of Expocaccer in the Cerrado Coffee Growers Federation:

#### 1. Loyalty of the cooperative members

In order to deal with an internationalization process, Expocaccer demonstrates strength in this area, ensuring the loyalty of the cooperative member, which in turn guarantees the delivery of the coffee to the customers. Some highlights are: solid storage and processing structure, secure transportation, customer portfolio, trained employees, and credible business partnerships. However, it is still necessary to reinforce to the cooperated member the perception of the advantages of being part of the DO system and the importance of the label.

#### 2. Competition

The entry of new coffee cooperatives, or even traditional coffee cooperatives that operate in the same region as Expocaccer, which often offer better benefits to producers, are a threat to

Expocacer. At the same time, partnerships with other cooperatives aiming at the internationalization process may possibly be established. These partnerships can be established through feasible actions such as: sharing Expocacer's physical storage and processing structures with other cooperatives or traders; using of the recognized trademark Expocacer in the foreign market, as well as the DO label; enhancing existing traceability systems, an important aspect of the foreign market requirements; joint identification of the best external markets for action and entry into new markets, such as Asia.

### 3. Business model

The consolidation of the business model of the cooperative leads it to act on several fronts with the producers. The focus of the cooperative should not be to act as a coffee brokerage, but rather as a trader and export organization, as well as a procurer of market niches, and possibly focus on the specialty coffee markets. However, it is possible to reach different markets by relying on the diversity of the coffee. It is important to be concerned about the succession of producers on farms.

### 4. The internal environment

After structural changes in the cooperative, its internal environment becomes prepared for internationalization, since the internal climate is reflected in the commitment of the team of collaborators, and in the quality of service delivered to the cooperative members and clients. The cooperative must maintain efficiency in the transit of internal information and the updated means of communication.

### 5. The role of Expocacer in the Cerrado Coffee Growers Federation

Expocacer plays a prominent role with the Cerrado Coffee Growers Federation. Due to its importance, the cooperative must assume the role of commercial leader of the region for coffee

with DO. The strategies of the cooperative and the federation should be attached to the elaboration of the international strategies of action, articulation of partnerships abroad and participation in the events of the international circuits.

To continue its activities, Expocaccer established a new strategic planning named "Expocaccer towards 2020". The monitoring of the actions of a cooperative must be continuous, as in a traditional company, and the actions must be established in periodical plans so that the demands can be fulfilled.

## 7. Conclusions

The internationalization of Brazilian cooperatives is, undoubtedly, an attractive strategy for these organizations because it promotes access (and investment) to foreign markets. In turn, the advantages obtained by these foreign markets when transacting with cooperatives are: the reduction of costs with the establishment with a smaller number of contracts with suppliers; the receipt of standardized products and/or with qualities and characteristics desired by their markets; and the reduction in uncertainty for the safety of food received; among others. Cook (2000) also emphasizes the credibility offered in face of the importance of the reputation and performance of cooperatives within the dissemination of innovation processes for the producers in the field.

The process of internationalization of agricultural cooperatives can go through three main stages, namely: Stage 1 - Export: In this phase, the cooperative explores new markets and adapts to them; Stage 2 - Exporter with alliances: In this phase, the cooperative establishes partnerships, explores unique aspects in the market, shares risks, and attracts capital for investments; Stage 3 - Exporter and producer cooperative: At this stage the cooperative is internationalized, makes investments abroad, and manages to circumvent protectionist policies

(Zylbersztajn 2016). In the case of the Expocaccer cooperative, it can be considered that the cooperative advances its actions toward compliance with the proposal in the second stage of the internationalization process.

Since the cooperative has been successfully fulfilling the export task, seeking to adapt itself to the demands of the foreign market, the dedication to the use of the brand "Café do Cerrado" is a strength with a unique aspect in the market, aiming to differentiate and add value to the coffee commodity. However, some points still need to be addressed. The establishment of partnerships and alliances is one of them. Additionally, the challenge of carry-on environmental sustainability, such as compliance with international environmental and phytosanitary – and, in some cases, animal health – standards, as well as the ethical and social values of these importing countries (Cechin 2014), are challenges to be overcome by all Brazilian cooperatives that aim to internationalize. National and international inter-cooperation is also a less explored step by Brazilian cooperatives, and it may be an instrument to increase the possibilities and capacities of these cooperatives in the foreign market.

Particularly in the case of Cerrado coffee, it is still a challenge for the cooperative to consolidate the importance of being part of the system "Denomination of Origin of coffee from the Cerrado of Minas Gerais" in the perception of the producer. This paper sought to emphasize the changing actions in the organization - or adoption of internal strategies - of the cooperative, considering the internationalization phase in which it is inserted. Thus, we explore the possibility of projecting possible strategies for other cooperatives that want to operate in the foreign market. The main question is: are the Brazilian cooperatives prepared for internationalization? And we are thinking about internal structure and internal organizational procedures?

However important internal strategies are, they are not enough. The influences of the external environment or institutional support, such as the role of the State in the promotion of coffee from the Cerrado and support given to Brazilian cooperatives, especially in the case of coffee, are extremely relevant aspects and our perspectives of deepening research on the subject point to this direction, asking for more information. It is necessary to say, at this point, that the Brazilian State should act as a facilitator in this scope of internationalization of Brazilian coffee cooperatives.

According to what Além and Cavalcanti (2005) suggest<sup>15</sup>, the necessary support policies are, adapted to the Cooperative organizations and the products that are being treated, such as: i) liberalization of restrictions on the direct investments of cooperatives abroad; ii) creation of international instruments to facilitate and protect the investments of cooperatives abroad, including the promotion and facilitation of strategic partnerships abroad; iii) information and technical assistance, especially compatible with the markets with which cooperatives are transacting; It is important to reinforce the role of the Brazilian State in disseminating the quality and sustainability of the national coffee, working with the purpose of international missions in the following ways: iv) fiscal incentives for cooperatives; v) insurance mechanisms for the investments of cooperatives and coffee producers; and vi) financing for cooperatives and for producers.

It is assumed that the adaptation of coffee cooperatives to the demands of external markets depends on flexible mechanisms of transactions between cooperatives and cooperative producers, in a relationship that is achieved through the investments of both parties in specific assets. Both cooperatives and cooperative members require technical assistance services and

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<sup>15</sup> Previously cited in the opening article of this Journal.

external (and state) guarantees to do so. In cases where such relations are supported by public policies and a strong institutional environment, it is inferred that cooperatives will be more prosperous in the process of internationalization, and to guarantee this support may be the greatest challenge for the advancement of Brazilian agribusiness.

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