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new food supply chains in sustainable
rural development”**

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RANKAS PIENS DAIRY

Case study report

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Summary

The case study of *Rankas Piens* illustrates the performance of regional dairies as they try to scale up and to consolidate in dairy chain. In particular it investigates the adjustment of regional dairies to the transformations in dairy sector determined by market pressures and enforcement of EU regulations. As such, the case focuses on transformative processes in food supply chain from the perspective of processors.

There are identified four major up-scaling adjustment strategies manifested in the case: product development - including “healthy”, “organic”, “sustainable”, “quality labelled” products, marketing - development of new distribution channels and communication to consumers, organizational consolidation – accumulation of resources and, lastly, reshaping of local connections – strengthening of local networks and bonding capital.

Although the dairy stresses and incorporates sustainability elements in its performance, still they are the economic elements of sustainability - like technological modernization, investment, concentration of production, and new market channels - that dominates its up-scaling strategy. That reflects and corresponds both to the limited understanding of sustainability among food chain members and the limited market of sustainable products.

However, social and ecological aspects are present. Especially, there is demonstrated the role of social links and social embeddedness in company’s development. *Rankas Piens* is a regional dairy and quite rooted in the local situation – it continues the regional milk production tradition, develops links with regional rural development actors and contributes to local social life.

The case illustrates the necessity for changes in the organisational nature during up-scaling process. *Rankas Piens* has implemented power consolidation strategy where the leader is keeping and expanding control over the many organisation and production processes whereas farmers – especially the small and medium ones – have not a great influence on decision making process. In the meantime the managerial team is legitimized from the side of farmers. Together with the knowledge and skills that it possesses, that makes it a professional and effective leading team.

The up-scaling process in the case has been accompanied by effective use of available public support – financial, consultancy and/or legitimation – which is especially crucial at the start-up of a new initiative or introducing innovative elements in former conventional performance as such support reduces the related risks and forms more favourable broader environment for the initiative. The case illustrates that besides the availability of public support it is also the capacity of organisation – embracing its financial and human resources, infrastructure, social links etc. – that matters to make use of it.

All together the case illuminates the crucial milestones of sustainable chain development during transition processes in post-socialism transition country.

1. Introduction

The case study of *Rankas Piens* investigates adjustment of regional dairies to the changes in milk supply sector determined by market pressures and enforcement of EU regulations. These adjustment activities manifest and can be analyzed in four major aspects: 1) development of new distribution channels; 2) development and marketing of new dairy products, including “healthy”, “organic”, “sustainable”, “quality labeled” products; 3) organizational consolidation of small and medium size companies; and 4) changing relations with other local and regional actors (milk farmers, suppliers, cooperatives, competing small and medium size dairies) with ambivalent consequences for rural development. These four aspects: marketing, product development, organizational consolidation and reshaping local connections compose the amplitude of the initiative.

The case study is focused on processing companies as central actors. The initiative is comprehended and analyzed as a set of strategies, activities, network relations, outcomes and organizational transformations of regional dairies as they try to scale up and consolidate in dairy chain.

The case study explores one core initiative – an up-scaling of a medium size regional dairy *Rankas Piens*, and two satellite initiatives: the slightly different example of up-scaling of another medium size dairy *Smiltenes Piens* from the same region, and a new start-up initiative – a small-scale organic milk-processing cooperative in Keipene municipality. The time frame of first two initiatives embraces the last 10 to 15 years. Although initiatives have different dynamics, the up-scaling activities have intensified exactly in the last five years or so.

The case histories of both *Rankas Piens* and *Smiltenes Piens* exemplifies to the modernisation of dairies within conventional food production and distribution system. However, there are certain elements and aspects of up-scaling which prove development towards more sustainable food production and rural development. We propose that metaphoric 95% - 5% divide between conventional and alternative food chains in these initiatives are gradually shifted towards, say - 80% - 20% proportion. In turn, the organic dairy's *Keipenes Piens* development strategy is directed not so much to up-scaling than to establishment of an alternative to the mainstream milk production distribution system.

The proposed initiatives address several hypothesis and concerns taken up by the SUS-CHAIN project. One of the central aspects in all the initiatives is the **improvement of organization** as companies grow up and upscale their economic performance. The other critical aspect is **management of sustainable products' distribution aspects**. Those issues have risen together with the **opening and/or enlarging new markets for sustainable products**.

All the three initiatives are quite rooted in the local situations and provide insights in local networks and embeddedness. Thus, they have some implications on the **building/improving local capital** (natural, social, cultural, economic, institutional). More specifically at the agents' level, they shape local **farmers' livelihoods**. However, it is questionable if the initiatives are improving farmers' situations and what **perspectives** they propose **for the most fragile producers**.

One of the arguments the initiatives propagate is healthy and safe food. As such the initiatives are bringing up and/or **responding to health concerns/ecological issues** in the society. And they take actions (f.i., use of organic ingredients in dairy products, introduction of quality standards) to transmit **credibility of the sustainability promise to the consumer**.

Two of the proposed initiatives – *Rankas Piens* and *Smiltenes Piens* are performing mainly in the conventional dairy sector; however, they have put forward some sustainability claims regarding production and distribution, as well as they have considered processing of organic milk. The organic dairy *Keipenes Piens* is one of the first initiatives in Latvia that aim to establish organic milk chain and to support and diffuse new – more sustainable production, processing and consumption practices. This satellite case brings the evidence of the **greening/moralizing conventional networks/chains/subsystems**. First of all, the **awareness is raised and changes stimulated in attitudes and behavior of the involved actors**, especially in the case of organic dairy. Nevertheless, it is not evident if those initiatives facilitate fair distribution of added value within the food chain system.

2. The context

There are two layers of context relevant to the core and the satellite initiatives: major trends in the national economy and agriculture since the beginning of 1990s and the more specific context of the development trends in the dairy sector.

2.1. Context: General transformations

The point of departure of general transformations in the national economy can be marked at the end of 1980s/beginning of 1990s together with the **systemic change** driven by privatization and decollectivisation. Those transformations lead also to the restructuration of agriculture and dairy sector: the system of consolidated collective farming was substituted by the rather fragmented private farm system. In parallel, a **new institutional framework** and **agricultural policies** were set up. Another basic transformation was the **market liberalization** starting from the beginning of 1990s, which continuously increased the economic competition (mid-1990s- today) both within the national and international market. From the second half of 1990s **Europeanisation** started and it has been another factor with political and economic implications on various chain actors. F.i. EU accession put new quality requirements, which dairy sector enterprises had to fulfill in order to receive license to export. Pre-structural funds (SAPARD) and current Structural Funds schemes have been important sources for technological modernization.

There can be identified several **consequences and responses** to those major trends along the food chain agents:

On the producers' side there can be observed a structural differentiation with two dominant trends - small-scale subsistence farming versus development of professional farming.

In the processing industry modernization and rationalization have been the key responses. Since the beginning of 1990s the processing sector has experienced privatization, which was followed by fragmentation, bankruptcies, modernization and consolidation. The segmentation of dairy processing industry has pushed smaller and medium size enterprises to be innovative to compete with larger industries. In the meantime there is a growing competition among regional dairies themselves and increasing pressure towards concentration of production. We observe this as one of the greatest challenges and risks for initiatives like *Rankas Piens*.

In the retail sector there have been developing new retail structures. Since mid-1990s Latvia has experienced fast spread and concentration of supermarkets' chains, subsequently followed by the disappearance of small retailers. In the meantime there is some evidence of local and small retailing practices to revive, especially in countryside and small towns.

Consumers: together with the more distinct social stratification there has happened stratification also with respect to consumption patterns and habits.

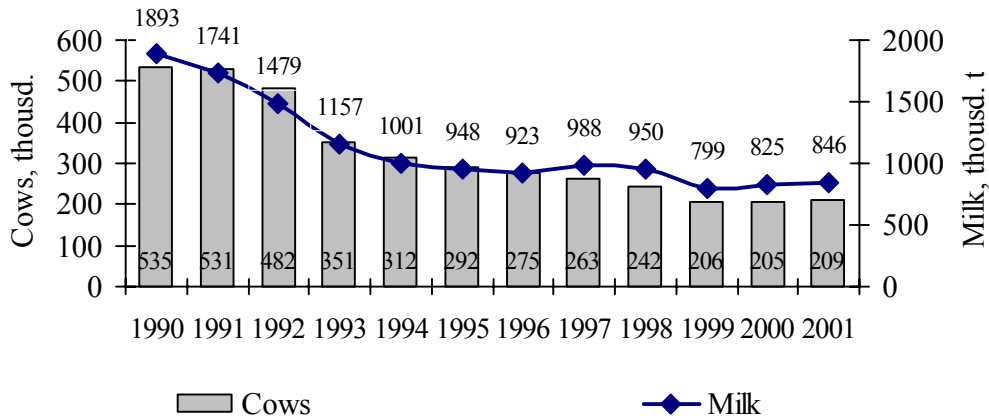
2.2. Context: Dairy sector

Alongside the pig-breeding and cultivation of grain, dairy farming is one of the key sectors in Latvian agriculture. There is favorable climate and appropriate soil for milk production in Latvia. Dairy sector composes 21% in the structure of final agricultural products.

However, the situation in milk production has been regressing for a long period. Since the beginning of 1990s the numbers of cows and milk production volumes have considerably decreased, they have been stabilizing just during the last couple of years (see Figures 1 and 2).

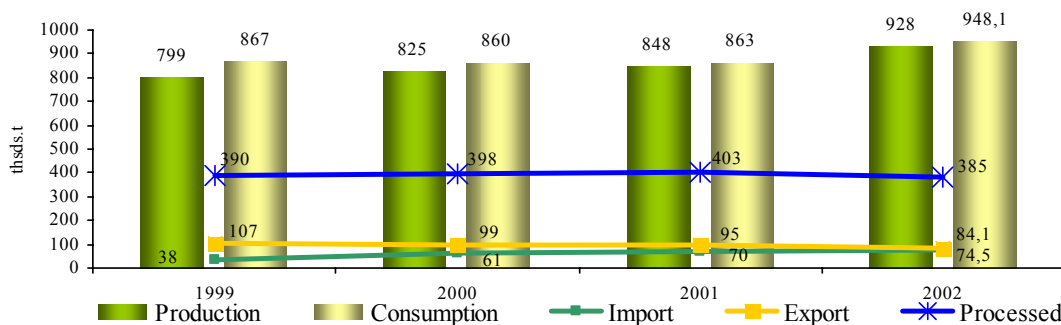
The milk production has dropped below the potentially possible volume and it does not meet even the needed self-provision of dairy products (in 2001 it local milk producers were able to ensure 98% of the total consummated milk products). (For comparison in Estonia it was 155%, in Lithuania - 142%.) The decrease of milk production does not concern all the farms evenly - milk production volume decreases in small scale and household farms, whereas it is increasing in bigger farms and statute companies (large cooperative farms).

Figure 1. Dynamics of changes in production of dairy products in 1990 - 2001



Source: Central Bureau of Statistics

Figure 2. Milk Production and Consumption Balance, thsds.t. 2002



Source: Central Bureau of Statistics

Therefore milk production efficiency in Latvia is estimated as low. One of the reasons is the fragmentation of milk production among many small scale farms. As is it shown in Table 1, a salient majority of dairy farms possess one to five cows. In 2002, 59% of the whole dairy

livestock were placed in the herds of up to five animals. In average there are 2,9 dairy cows per farm. Small sized milk-producing farms and small number of dairy cows in farms does not facilitate development of milk production, improvement of milk quality and investments in dairy sector. Nevertheless, there can be observed a gradual change in dairy farm structure – whereas the number of small farms is slowly decreasing, the number of medium and large dairy farms increases. It is evident that the farm consolidation process enforces economic motivation to invest in modern technologies and development.

Table 1. The structure of dairy farms

	Farm number according to herd size, 2002	
	Number	%
1	39 228	55,1
2	17 984	25,2
3 – 5	9 877	13,9
6 – 9	2 442	3,4
10 – 19	1 175	1,6
20 – 29	228	0,3
30 – 49	134	0,2
50 – 99	102	0,2
100 – 199	52	0,1
200 – 299	19	0,0
300 and more	28	0,0
Total	71 269	100

Source: Central Bureau of Statistics

Processing industry

Among the Baltic States the highest number of milk processing companies is in Latvia – 53 with 73 production units, while in Estonia there are 45 and in Lithuania 38 companies. This number witnesses the rather fragmented processing industry and the scope of inevitable concentration, which has started already. The biggest milk processing industries and dairy products exporters are holding companies *Rīgas piena kombināts*, *Rīgas Piensaimnieks* (in 2002 enterprise's turnover was 14,2 millions lats ~ 22 millions euros), *Tukuma Piens* and *Vidzemes piens*, altogether 11 processing industries. *Rankas Piens* is the 7th largest dairy in Latvia.

As it was stated above, the local producers are not able to satisfy the needs for milk products in internal market. In the meantime there is a competition among the many milk processing companies for the market share. Recently the competition in the dairy market is even more aggravated by the cheaper milk export products, especially from Lithuania.

Dairy farmers sell less than 50% of the milk produced to processing companies. The rest of milk is consumed either at farms' households or sold directly at local markets, catering industry, etc.

Milk processing companies have stable export traditions to the EU and Baltic Sea region countries. However, similarly as within the other sectors of economy, also dairy was shaken by the economic crisis in Russia, which for a long period has been an important export country. There was needed time for them to establish new markets. Dairy is the only agricultural sector with a positive external trade balance (16, 1% export and 3,1% import in 1999). 10 of 53 processing companies have met the standards of EU hygiene and health norms and are allowed to export to the EU. The 15 EU countries have been major export destination where 48% of the whole export milk products were sold. (Certainly after the enlargement of 2005 this share has even more increased.)

Regulation

Since 1998 dairy-farming is set as one of the priority sectors in Latvian agricultural policies. The main focuses of the agricultural policy in milk sector are the interlinked aspects of economic viability and quality of milk production. They are reflected both in policy goals, strategies and supportive measures. As it is stated in the National Program for Agricultural Development 2003, the main aim of the agricultural policies in milk sector is to facilitate the production of competitive and high-quality milk that would meet the EU and the world's market standards and would ensure sufficient incomes for milk producers and processors. The means to reach it are seen in rationalization of milk production e.g. intensification, productivity increase and quality increase at farms level; establishment of rational, economically safe and effective structure in milk processing sector that would meet the EU standards of quality and food security and sanitarian norms; and arrangement of the internal market of milk products and development of the export as well as strengthening the system of contractual relations between milk producers and processors at institutional level.

There are several support measures developed and implemented to support the milk sector: state subsidies to milk producers, measures to support pedigree, maintenance and development of the register of milk producers and herds, establishment of milk quality laboratory, measures to develop the market of milk products, formation and maintenance of the control system of domestic animals health. Those measures are aimed to support milk producers, to stabilize and to develop the market of milk products, to improve the performance of milk processing sector.

In 2002 there was established the Food and Veterinary Service (FVS) - state monitoring institution, which ensures unified state surveillance and control over the food circulation including control over dairy production (animals' health control, milk quality inspection, food processing, producing, packing, storage, retail control).

Milk consumption

Milk and milk products is one of the basic food-stuff in Latvia and there are milk consumption traditions. Nevertheless, together with the decrease of milk production volumes there is decreasing also consumption of milk products. Every Latvian consumes 66 liters of milk per year that is considerably less than average in the EU – 97 liters. However, the statistics of milk consumption does not reflect the situation properly as still a considerable amount of milk is sold to consumers directly in the marketplaces or small shops and it is not included in the statistics.

Table 2. Milk production and consumption in Latvia 1998– 2003 (thsd. tonns)

	1998	1999	2000	2001	2002	2003
Milk produced	951,8	798,7	825,0	848,0	878,0	908,0
Consumption	879,3	871,9	870,52	866,8	860,0	850,0
Provision, %	108	92	95	98	102	107

Source: Ministry of Agriculture

Latvians are seen as rather patriotic with respect to food consumption – they prefer to buy local products. Nevertheless, the lower prices of imported milk products make them more attractive among consumers with lower income. During the last couple of years the prices of milk products have considerably increased – f.i., for butter even for 40%, for milk and yogurt, soft cheeses for 20 to 25%.

Areas that exhibit dynamism

Currently dairy sector exhibits dynamism, the number of small farms is decreasing whereas the number of big farms is increasing. Small farms face the challenge together with the EU accession – they have to decide whether to grow, expand and develop to meet the new quality standards or to end up to produce for the market. Thanks to subsidies, bigger farms are able to invest in development (building new sheds, increasing herd size, purchasing milking and cooling equipment). Bigger farms are in better position to negotiate with dairy industries as they compete for milk, while smaller farms more often rely on direct communication with their customers and deliver their products to customers at home.

Significant factor that stimulates the development of dairy processing is export market. Top-line export products are butter, cheese and skimmed milk powder. Large processors successfully combine marketing in Russia, Baltic States, and EU. The main dairy export countries are Germany and the Netherlands.

Organic milk production develops gradually (228 tons of organic milk produced in 1999, 3863 tons in 2001). Spread of organic farms saw a boom from the year 2004 when Latvia joined EU and new subsidy scheme was introduced for organic farming. On the other hand insufficient volumes of production, the missing separate processing and lack of established forms of organic marketing hamper the development of organic products and their market dissemination. Besides the cooperation of organic producers is poorly developed.

2.3. Rural development implications and effects of potential changes

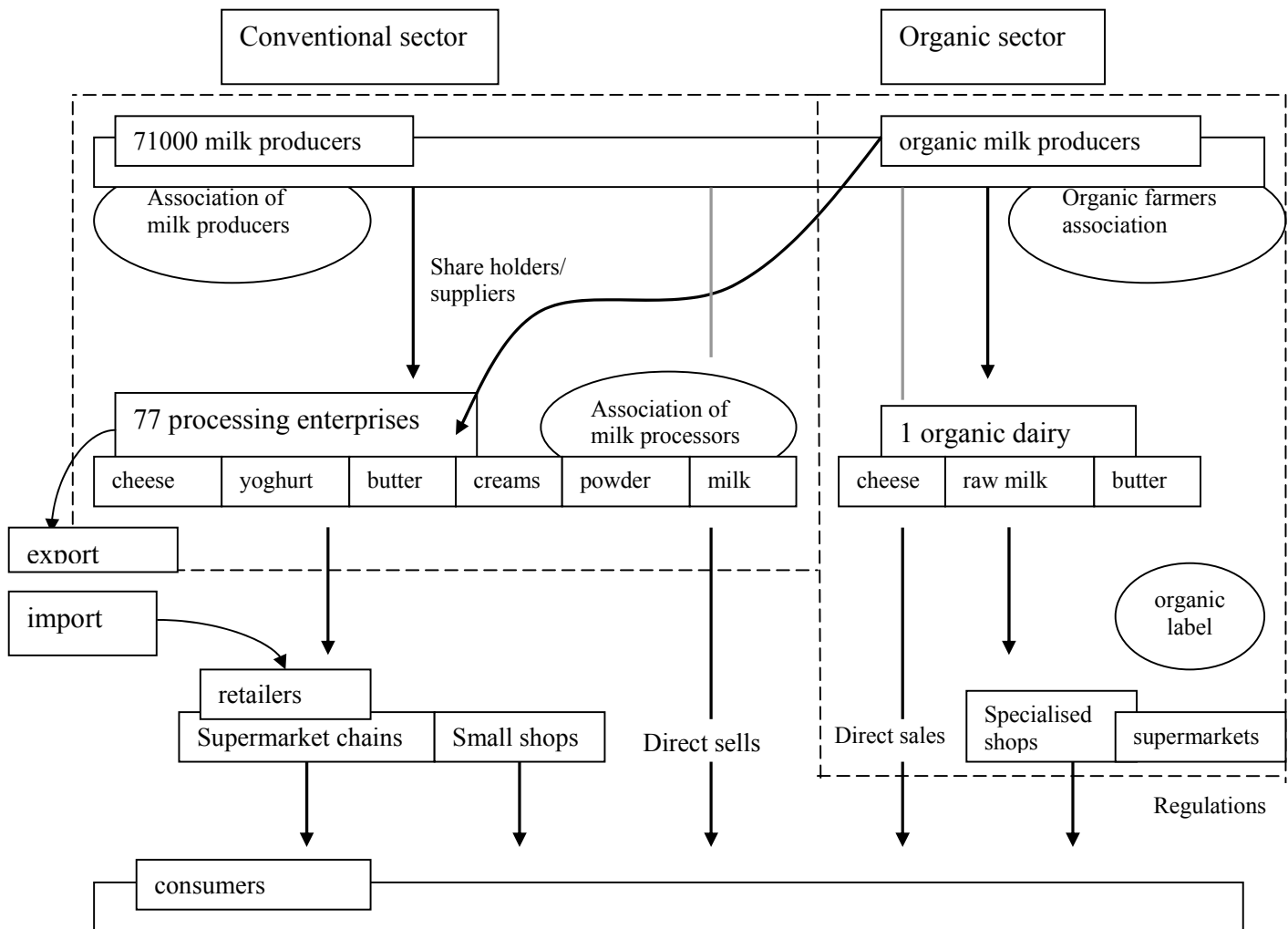
Agricultural policy documents state that the objective of dairy sector is to reach at least 100% self-provision in Latvia and to increase export. Support is aimed at production enforcement, herd enlargement, quality assurance and technological modernization. Such factors as unfavorable farm structure (in particular the large number of small farms) and presence of semi-subsistence farming combined with an evolving commercial farming sector bring forward a range of dilemmas. This dualism of structures is likely to exacerbate different kind of tensions during the restructuring process, when not only farm structures, but services and off-farm employment opportunities as well will require development.

Due to the transformations in dairy sector the number of cows and farms are decreasing, but milk quality and milk yield is increasing. The prices for milk purchase rise. In processing industries modernization takes place. There is a growing demand for qualified labor force and the role of education increases in rural labor market.

Looked from perspective of milk farmers, the bottlenecks for improvement of their situation are:

- Low productivity, small production amounts;
- Lack of current assets for investment in farms and enterprises modernization;
- Slow process of milk quality improvement;
- Conflict between farmers and milk processing industries regarding milk quality tests;
- Price disputes with processing companies;
- Low level of cooperation between dairy farmers.

Picture 1. Map of the dairy sector in Latvia¹



¹ Adapted from Swiss team

3. Objectives and state-of-the-art of the initiative

In the core initiative – up-scaling and modernization of the regional dairy *Rankas Piens* – we can distinguish two initial aims at its start-up in the beginning of 1990s:

- To scale-up production and to improve commercial performance through modernization and market stabilization/ expansion;
- To specialize production and to develop new sustainable products that would give market advantage.

After more than 10 years when the initiative has actually scaled-up, improved its commercial performance and achieved certain success, two new major challenges, corresponding to those aims, have emerged:

- The necessity to change/ improve management structure and style in order to manage the increased complexity of the company and its external relations;
- The necessity to improve and find new ways of communication with consumers and enhance economic viability of the products.

Smiltenes Piens, which has been developing in very similar context and faced similar challenges as those of *Rankas Piens*, first of all complements this core initiative of up-scaling and modernization process by representing another management structure. Whereas organic dairy *Keipenes Piens* is a new initiative, established recently in another economic and political context and it represents an alternative to conventional dairy sector by penetrating the market with qualitatively new products and disseminating sustainable life style ideas. Because of the few numbers of organic milk producers and low consumers' awareness of organic products, the issues of up-scaling and communication to consumers could be among the basic ones also for the organic processing enterprise.

Up-scaling and modernization is probably a common issue for the majority of market agents. However, the initiative presented here tends to reach it not for any price, but by introducing sustainability and quality measures.

4. The story of the principal initiative including the changes/developments in its profile and performance

4.1. Identification of the starters

The start-up of the core initiative fits with the establishment of the dairy *Rankas Piens*. *Rankas Piens* was established in 1993 when the state owned milk company *Valmieras Piens*, of which Ranka dairy was a branch, was privatized within the general privatization process in the country. It was a period after there had been made decisions at national level, incorporated in laws on privatization, to distribute state and collective property to private ownership and management. In 1992 there was taken a decision and afterwards developed a law specifically for the privatization of milk processing companies. It identified the milk processing companies which should be committed to privatization, stated the procedure of privatization and the responsibilities of the involved parties. So, the privatization process was centrally regulated.

As Rural Support Service (RSS) employee describes it, the privatization in the dairy sector has been entwined by a rather great enthusiasm. On a big extent it was because historically dairy has proved as a very successful economy sector in Latvia: during 1930-ies (the period of Latvia's first independence) dairy farms were economically strong: they tended big herds and reached high milk yields; they were exactly dairy products – butter and cheese – that composed Latvian basic export products. Having such an effervescent experience and/or vision of the past, there were expectations among people that “those old good times would come back; we would have a dairy which produces butter like during the first Latvian independence period, and everything would take its course.” (Moreover, after the experienced negative sides of collectivism during the soviet period, people in general were keen to get down to individual farming and businesses. Many people without specific agricultural background settled down in the restituted properties and were willing to farm, later a part of them has given up.)

Following the re-structuring process in the dairy sector, in Ranka 96 dairy farmers from the nearby municipalities and employees on the base of Ranka dairy found a joint stock company *Rankas Piens*, and it started up an independent business. The privatization process has been obviously opened to various stakeholders, including dairy farmers – “Milk suppliers took part at meetings during all those reorganizations, privatizations and transformations” (RSS) – and there was ensured their involvement in the formation of *Rankas Piens*. Altogether the key actors in the establishment of *Rankas Piens* have been ex-state-company's *Valmieras Piens* dairy in Ranka, representatives of processing sector – dairy employees, and farmers – milk producers. Even if it has been a collective process, there should be stressed the role of one particular person in the initiative – the foundation and also the further development of *Rankas Piens* has been significantly driven by its current formal and informal leader – the executive director, ex-production-manager in *Valmieras Piens*, a really entrepreneurial person. On a big extent the initiative can be seen as his personal business project, even if it has been well supported by the other agents involved.

The understanding of sustainability in the initiative first of all is related to its economic growth and durability. From the side of farmers there have been expectations to sustain and develop their farms and to reach welfare. It was only natural as most of the newly established farms were in apparently modest situation in terms of production means and premises. The case of farmers L.

presents a typical start-up of an individual farm in the beginning of 1990s: “[In kolkhoz] we were working together with my husband. I was engaged in furniture production. But then we moved to the new kolkhoz pig farm – there was a good kitchen and we had to prepare fodder. I was a manager and my husband – mechanic. When the kolkhoz was liquidating, we had to think what to do further. .. We started [farming] with two or three cows. We bred them by ourselves. In the beginning we had a small cowshed for three cows, later for five...”

On the dairy’s side, since its start-up it has strived to keep up and to increase its share in the market. Nevertheless, it has not been a pure economic expansion strategy. From the very beginning a lot of efforts in the dairy’s performance have been devoted to ensure and keep certain quality level and to innovativeness.

4.2.Genesis of the problem and formulation of the initial project (Problematisation)

The situation in the privatized dairy sector was new. Dropped in the free market situation, several newly established dairies went to bankruptcy as the governing bodies – often boards – might had missed knowledge and skills necessary to manage the new situation and also often they have been too optimistic in their prognosis of market development and business opportunities. So, the first task for new enterprises was to keep the business running. Since the privatization, the processing business in dairy sector has been rather fragmented (still there are 77 enterprises, which are estimated as inadequate – too large – number for Latvian situation) and that means rather tough competition among processing companies in several ways.

There is a competition in the market of milk products. The executive director of *Rankas Piens* states, “we can not defend our products. As long as we’re the first and the only [producing some novelty] we’re successful.” (During the recent years, the competition has become even more severe because of the cheaper imported milk products.) Therefore one of the basic problems of *Rankas Piens* has been how to conquer and to maintain a stable position in the market.

Another problem for the initiative lays in the milk producers sector. The volume of milk production in the country has been decreasing constantly since the beginning of 1990s. It has created a competition among dairies for milk suppliers. Especially in Vidzeme region where *Rankas Piens* is located, there are several dairies, which are competing to collect raw milk from the same farms. RSS employee describes: “Together with the decrease of milk cows there was no anymore enough milk. An interception started. One milk enterprise arrived after another. Those farms with one or two cows were not important, the biggest fight is for the big farms, those of 500 cows.” In Ranka parish there are arriving milk collection cisterns even from Riga, which is 250 km far. The basic strategy used by dairies to attract farmers is to offer them higher prices. Nevertheless, often it turns out to be just a temporal solution as other milk processing companies may outbid the price. To ensure some stability of milk supplies, often there are signed contracts with bigger milk farms. The problem of insufficient quantity of raw milk has impact also on *Rankas Piens*’ commercial performance and its aim to expand: because of the shortcomings of raw material it has been problematic to increase production volumes.

In parallel to the market pressures, other ones lay in the regulatory setting. Since the beginning of 1990s gradually there have been introduced new quality regulations in dairy sector. In order to meet them, it has required from processing companies new investments. Moreover because the

production premises and technologies often have been out of date. It has created “Already for bigger milk enterprises it was problematic to renovate everything accordingly to the new requirements. For the smaller ones it was problematic even to paint doors and to tile the floor.” (LAD) On the other hand, in the *Rankas Piens* case those quality standards have been a positive external pressure that has lead the dairy to pay even more attention to quality issues.

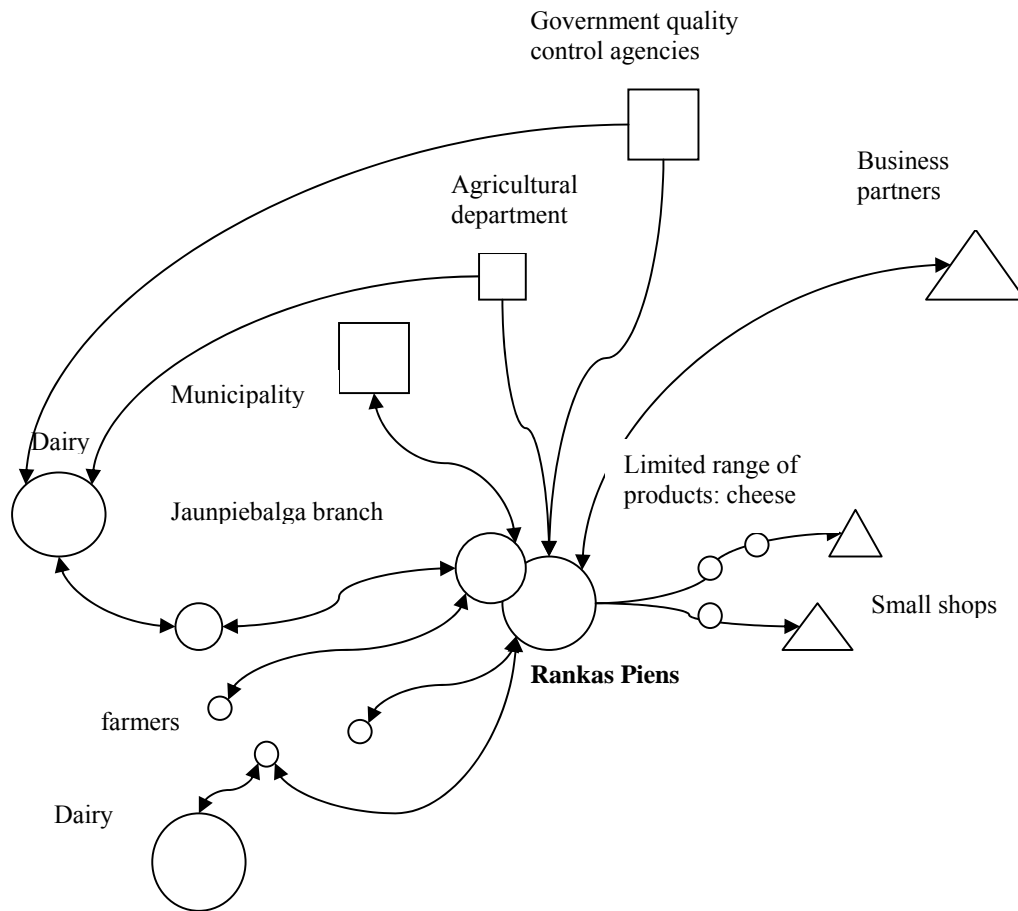
As a response to those external market and regulation pressures, after the revision of the company’s resources, the initiative has started from the awareness of the executive director and the board that the economic future of the company, its survival and commercial performance would depend on its ability to comply with the increasing quality demands/ regulations and the ability to invest in technological modernization.

4.3. Development of the initiative (interessement – enrolment – mobilisation)

As follows, the decision was made and agreement achieved among the Board, the Council, the executive director and the shareholders to modernize and to upscale the company.

As it was described above, at the start-up at the initiatives disposal there were production premises of the ex-branch of *Valmieras Piens*, the shareholders/ milk suppliers and the team of *Rankas Piens*. Rather soon *Rankas Piens* was able to buy also neighboring Jaunpiebalga dairy, which had gone under bankruptcy. During the first year *Rankas Piens*’ main product has been cheese *Valmieras siers*. This initial specialization of the dairy in cheese production has been estimated as one of the preconditions for its further successful performance. “Ranka was a cheese dairy and in the period from 1994 to 1997 they could experience growth thanks to cheese productions.” (Jaunpiebalga) The other branch of the ex-holding company *Valmieras Piens*, established in the same time when *Rankas Piens*, – the dairy in Jaunpiebalga had processed unskimmed milk and faced serious problems to sell their products that fastened its bankruptcy.

Picture 2. **Rankas piens network: 1996**



Afterwards, all along the development of the initiative there have been identified various means and undertaken a broad range of interlinked sequential actions to reach those goals of modernization and scaling up.

According to SUS-CHAIN taxonomy the uptaken actions fit in the following areas: communication, technical innovation, technical alignment / standard creation, certification, facilitation: logistics, and to some extent political action by participation in associations. In practice those actions found expression as:

(1) Investments in logistics. As *Rankas Piens* did not possess sufficient means to up-scale the company, they have decided to take bank loans, which were invested in material and technical basis and technology development. In later years when there was available EU SAPARD program's funding, the dairy applied for it as well. SAPARD funds were used for the construction of a new production facility in Ranka.

Those investments in technological modernization and alignment have facilitated other transformations in the dairy's performance, especially those ones related to innovation and on-

going development of new products, standard creation and quality measures and organizational issues.

(2) Innovation in product development. Already in 1994, afterwards the construction of a production extension has been finished, the dairy was able to broaden the range of products to cream, cottage cream, yoghurt. Thus, there has happened specialization of production in two product lines – cheese production and milk products. Searching for its specific niche in the market, the dairy has engaged in the experiments of new dairy products. It has tried several new products, e.g., smoked cheese, rye bread yoghurt, cream liqueur. Some of them have been successful – f.i. rye bread yoghurt has received the prize of Latvian Traders' Association as one of the best products of the year 2003. Invented by *Rankas Piens*, the rye bread yoghurt nowadays has become popular foodstuff among Latvian consumers. Many dairies have 'borrowed' it and included in their assortment. Some other products – like milk liqueur – has not gained consumers confidence.

In the development of new products the dairy has collaborated with scientists and the University of Agriculture. Food technologist, popular in the whole country, – so called “cheese grandmother” has helped a lot to *Rankas Piens* in the development of new cheeses as well as in the development of *Rankas Piens* design for products.

(3) Standard creation and quality measures. As it was mentioned above, during 1990ies there have been introduced new quality regulations in the dairy sector. In the meantime *Rankas Piens* itself has developed an on-going internal quality control. There are kept regular meetings with the specialists of the dairy to discuss quality issues, identified critical points in production and distribution, and found solutions.

Investments in production premises have let to raise the quality all along the milk collection and processing process. The traceability has considerably increased: the newly introduced system lets to trace milk from farm till the end-product and backwards. The new milk collection cisterns are equipped with several compartments and therefore it is possible to transport the milk from each farm separately. Afterwards there is taken milk analysis. Nevertheless among producers the trust is no even regarding those quality controls and results. The dairy has introduced differentiated prices for the milk of different quality. Following there is some stratification in payments between small and big suppliers as the smallest ones are not able to ensure milk of constant and sufficient quality. (Moreover, differentiated relations with suppliers develop also because of economic reasons – the collaboration with big suppliers is economically more advantageous and with them there are signed special contracts.)

Then *Rankas Piens* has adjusted the company accordingly to the standards of food security. In April, 2004 it has received HACAP certificate. *Rankas Piens* was the second dairy in Latvia which has received this certificate. The lawyer estimates that the introduction of HACAP has positive results already, first of all in terms of traceability of products. “If there are cases when at some school some children feel bad after the consumption of milk products among which there are also our ones, by marking we can track the product, each pack of cream or curd till the supplier.” Further the dairy has started to work to receive the certificate of quality management ISO – “Quality management system is a broader concept. It includes not only food security control system, but helps also to improve company's management, to monitor each link, their

sequence and accountability.” (Lawyer)

(4) Organizational issues.

Business management

Rankas Piens has expanded logistical structure – there are established six regional distribution branches. The company’s lawyer describes that it is not a common practice among Latvian dairies to sustain own distribution network as it is expensive. Nevertheless, it helps to monitor and to control the distribution process. Moreover, from the side of *Rankas Piens* it is important as there is no trust among dairy chain agents “Shareholders keep opinion that those who are working in countryside are good and honest and their life is hard and that retailers are just trying to dig up profit in their pockets.” (Lawyer)

The dairy has aimed to penetrate supermarkets, which recently have been entering and overtaking retailing sector in Latvia. *Rankas Piens* has contracts with two supermarket chains and 60 to 70 % of *Rankas Piens* products already are sold in supermarkets. *Rankas Piens* itself is approaching supermarkets with propositions to sell their products. However, the executive director expressed a prognosis that the situation will change as the demand for local products will increase. He is not satisfied with the current collaboration with retailers: “The contracts are draconic.” As well *Rankas Piens* has own shops.

Organizational management

The organizational structure of *Rankas Piens* includes the council, general meeting of share holders, the board and the executive director. The Council is a representative institution of shareholders in *Rankas Piens*. It was created as there are too many shareholders (369) and it is impossible that they would be daily engaged in the dairy. The general meeting of all the shareholders is organized once a year. The rest of the year it is the council that takes the strategic decisions. There are represented both employees of the dairy and bigger shareholders – milk producers and suppliers in the council. They come together every second month. In their competence there are various questions – new projects, attraction of investments, planning, definition of prices.

The dairy’s lawyer acknowledges that there are conflicting interests between the shareholders and milk suppliers. “*Rankas Piens* has been established on the base of dairy producers’ co-operatives. There were milk processors and milk suppliers in them. Therefore it is a bit illogic because we have to keep in balance the interests of shareholders who prefer to keep milk purchasing price low so that the company was profitable, and on the other hand there are people who are interested in their small farming business and they would like that the purchasing price is higher.”

Still, the executive director keeps the central role in planning, strategic decision making and managing the company. As it was stated above, on a big extent the successful performance of *Rankas Piens* is the merit of its executive director: “It seems that the question of personality has been the decisive here. With his entrepreneurial talent, how he calculates risks, plans the strategy and, finally, what team he gathers.” (Jaunpiebalga) Nowadays together with the scaling-up, the complicity both within the dairy and its external relations has increased. It provokes the one-person management style and demands division and delegation of responsibilities. On a big extent it is also a psychological kind of challenge for the executive director to change his governing routine he had practiced since the start-up of the dairy. “The director has been present

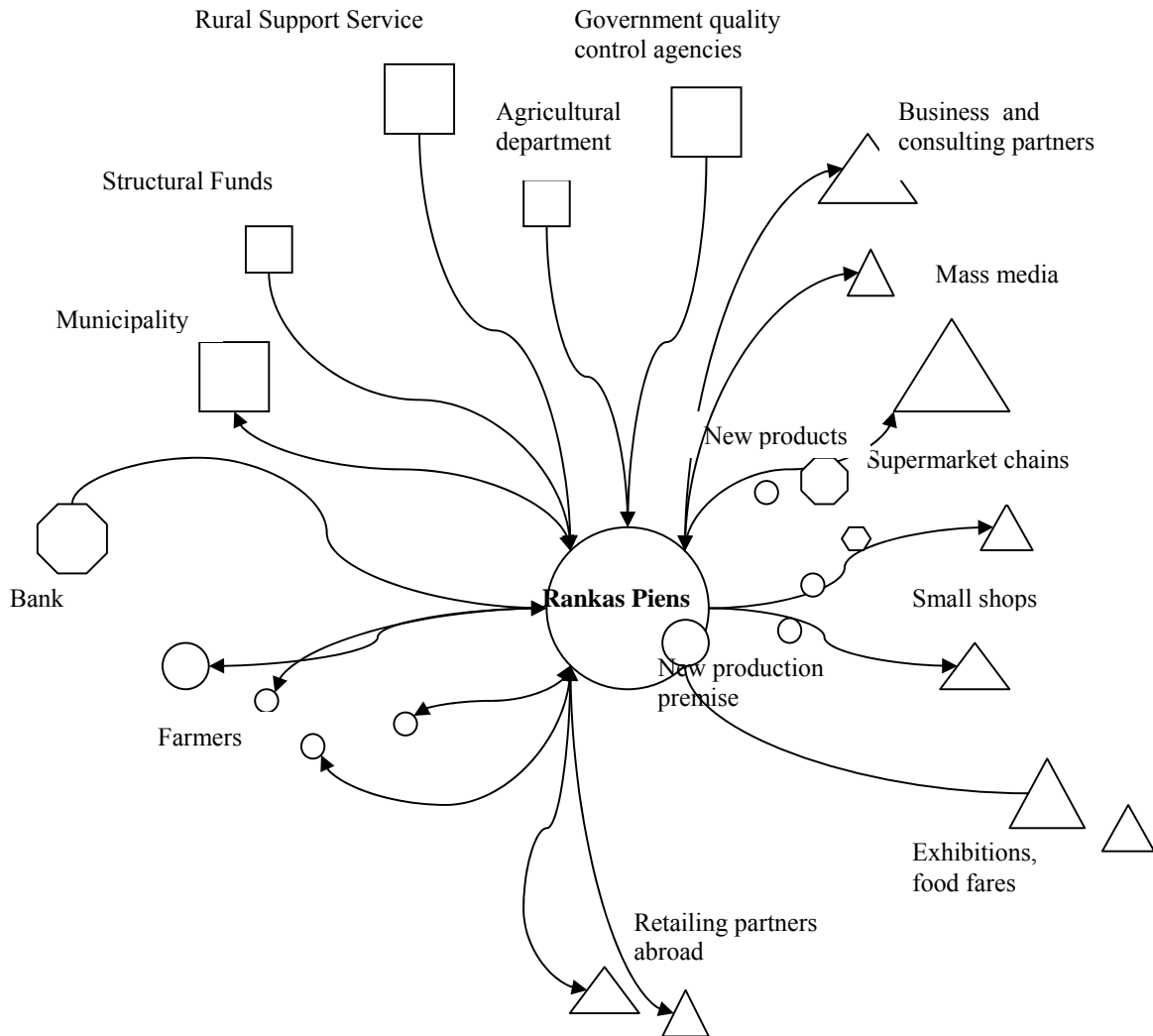
at the company' cradle, started with a couple of cisterns and products lorries, which he had handled by himself to clients. Till now when the company is too large that it could be supervised by one person. But he still has this wish and aspiration like in the very beginning to be present everywhere, to supervise, to control, to take part in all the processes till details, till screws bought for lorries. And sometimes it takes too much time to work still on more strategic questions and management.” (Lawyer)

(5) Communication to consumers. *Rankas Piens* uses several attractive ways to speak up to consumers. They communicate to consumers via mass media. There is a contract with the national radio station “Latvijas Radio 2” about co-production of a radio emission. During the emission the audience is informed about the *Rankas Piens*' products, production processes, employees, news in the dairy. Various popular persons take part at the emission, like Ranka municipality leader, dietician who has commented dairies' products, etc. There are performed popular songs. For a time period *Rankas Piens* has prepared and published its own newsletter. It takes advantage to communicate also at various public events – food fares, regional and local social events. *Rankas Piens* is engaged in the implementation of EU funded program “Milk for schools”. The general idea of the program is to improve health by promoting well-balanced and healthy food. The practical steps carried out by the local dairies are milk supply to schools for lower prices. Then they work to improve marketing, packaging, pricing, consumer information. Also relations with the local government, support institutions, shareholders and population in the region help to inform consumers in a more informal manner.

The milestones achieved in the result of those activities:

- Acquisition of internationally recognized certificates (“EU certificate”, HACAP);
- Internal quality control mechanisms;
- New products, including “sustainable” products (*Rankas Piens* uses organic rye bred as its ingredient for yoghurt);
- Private label “Healthy lifestyle”;
- A new production premise and modernization of production technology;
- Increased share on domestic market;
- Wider export markets.

Picture 3. **Rankas Piens network: 2004**



The main driving forces during the development of the initiative have been contextual (both in the form of constraints and supportive measures) and internal, related to the dairies own capacities and resources. There have been several economic and political **pressures** of the transition period, which have stimulated the dairy to optimize its performance. In a way it was the need to **survive** during the process of structural reform and rationalization of dairy sector, which have affected both production and distribution processes. There was the need to comply with increasing **quality requirements** and the need to develop and consolidate domestic **marketing** and to find new partners in the EU. The dairy has succeeded to combine and consolidate various **PEST** factors to improve its performance: availability and use of new technologies, bank loans, SAPARD subsidies. Besides those external favorable factors there should be stressed the

enthusiasm, passion (“the company is my whole life”) **and entrepreneurial** drive of the executive director and the commitment of the trained personnel thanks to whom they have been transformed into real benefits for the dairy.

The initiative was locally started but gradually developed at regional and national scale. The company aims to enter international market by proposing specific healthy and niche products and it has started export. The main development trend hitherto has been up-scaling from regional to national market by the means of improved distribution system, offering new distinctive products.

The new premise for the production of yoghurt constructed by the SAPARD funding leads to the **concentration of production**. It has let *Rankas Piens* to sell Jaunpiebalga dairy and to transfer all the production to one place – Ranka, which is more gainfully. The concentration of production has helped to reach the *Rankas Piens* goals. Accordingly to their own and their partners’ (the bank, Rural Support Service) estimations, the dairy has become more competitive.

Rankas Piens’ up-scaling has several **impacts on local community**. First of all, there should be mentioned the contribution to local economy. The dairy provides working places for local people. In 2004 there were employed 176 people, the municipality receives the income tax – Ranka municipality leader explains that in the context of a rather common practice of evading tax payments, *Rankas Piens* is an exception. The dairy has performed some infrastructure-related initiatives: it has taken under its responsibility the treatment plant and there have been constructed roads. Ranka municipality leader recognizes that the municipality has become in a way even dependant on *Rankas Piens* as it sponsors and supports various local events and activities. He positively estimates both the collaboration between the dairy and the municipality and the up-scaling of the dairy: “This dairy by constructing, expanding and functioning leaves some long-lasting contribution. I believe that more they expand, more my inhabitants get involved – they have work. If one has work, he can live.” So, the last part of the citation leads to that another outcome of *Rankas Piens*’ economic performance is the animation of the community (social) life. LAD employee concludes “We respect *Rankas Piens* for all that it has done for our region.”

The positive impact of the dairy on the local development is obvious also in the other municipality – Jaunpiebalga, where *Rankas Piens* has owned the dairy. Jaunpiebalga municipality leader guesses that after *Rankas Piens* would sold Jaunpiebalga dairy, together with the transfer of production premises to Ranka also a part of its employees will follow. So, the municipality might loose some specialists. Such enterprises as *Rankas Piens* retain economically active people in rural areas. Similarly as in Ranka, also in Jaunpiebalga the dairy has funded various social events and invested in local infrastructure. For instance, in collaboration with other local entrepreneurs there have been renovated the open air stage, *Rankas Piens* sponsors and takes part in the annual sport festival.

The **demographic trends** in Ranka municipality during the three last years have been positive. However, it is difficult to relate it directly to the presence and positive performance of *Rankas Piens*. Obviously, the dairy is important to keep local people in the municipality as it offers working places; besides it animates the community life by supporting social and cultural events. However, rural depopulation trends have not passed Ranka and during previous years has many young people have moved to towns already. There are other social problems present. “People in

general have degraded a lot. They are not needing job anymore. They will come to work for couple of days and that would be all. They are drinking. I do not contact anymore with the local people. I am afraid at certain degree. People are so different. Maybe himself he will not steal anything, but he will tell to his friends.” (Farmer, GK)

The outcomes and of about *Rankas Piens* **collaboration with local milk suppliers** are rather controversial. Municipality leader estimates *Rankas Piens* as rather collaborative with its suppliers. He guesses that despite some temporal delays of payment to milk suppliers because of the dairy’s products distribution problems, the farmers are willing to stay with *Rankas Piens* as it is ready to support them by some small loans to buy milk coolers, fodder, etc. Nevertheless, the executive director of the dairy acknowledges that *Rankas Piens*, like other processing companies, prefers to buy in milk from bigger producers. It is reflected also in the structure of the milk purchase - 60-70% of the whole milk processed in Ranka is supplied by big milk producers. First of all it is related to the quality standards, which are difficult to meet for the small farmers. The executive director admits as well that the collaboration with the smaller farmers would require more investments (in milk coolers, equipment of milking rooms, etc) but the dairy cannot afford it yet. *Rankas Piens* has invested in bigger farms. LAD employee tells that some farmers have stopped to supply milk to *Rankas Piens* as they were not able anymore to meet the quality standards set by the dairy. “They make tests in the laboratory and there they see perfectly what milk comes from which farm. They have so specific and draconic rules now. Everything moves towards modernization there.”

The structure of dairy farming in Ranka and its surroundings has changed. The number of dairy farms is decreasing, mostly due to the disappearance of small milk producers. In the meantime the total number of cattle is increasing because the herds of bigger farms are growing. There cannot be made simple conclusions that the performance of *Rankas Piens* has been lethal to small farmers, as there are other reasons - related to the economic viability of farms and systemic factors of institutional settings of agriculture. Nevertheless, as it was described above, small farms are not of the biggest interest of *Rankas Piens*, which is mostly of milk quality reasons. The situation of small farmers is described by the municipality leader “The small milk producers cannot meet the quality standards. Economically it is impossible for them as nobody will put a milk-cooler equipment in a farm of two or four cows. Secondly, [dairies] profit this situation that the small farmers are not competitive and the milk is bought from them for very low price. It is impossible to argue if there really are bacteria and cells in the milk as is it is reflected in analysis. Wherewith the small farmers are disappointed.” (Jaunpiebalga)

Moreover, the small farmers (and farmers in general) are rather resisting to develop some cooperation to represent and defend their common interests and therefore to try improve their position in the dairy chain. “About the cooperation among dairy farmers. There is no any cooperation. Maybe it is related to personal characteristics, but there is no cooperation. During Latvia period [the period of the first independence of Latvia] there were dairy farmers unions, but now it is a completely different time and we have in heritage this system of kolkhozes [collective farms]. Therefore everybody wishes to be on his own. But we have tried. We have bought a swather together. It was the only solution. The idea of cooperation is good, but there is a need for doers as well.” (Jaunpiebalga)

The most obvious outcomes of those adjustment efforts have been technological modernization of the enterprise, improvement of economic performance and strengthening of market position. Due to shortage of milk supplies and increased competition for raw milk volumes, production has been stable in the last years and the company plans to start up other kinds of non-dairy production. Nowadays *Rankas Piens* is the 7th largest dairy in the country. However, it can be estimated as medium sized. Daily it processes 60-70 tones of milk.

Table 3. Network mapping of Rankas Piens case study

Actor	Dixon classification	Geographical scope	Role in the network	Stage	Goal
Rankas Piens	producer	local/regional	Processor, distributor	problematization	To upscale,
Farmers	producer	local	Milk producers, suppliers, share holders	Problematization/ interessement	To continue, improve their business
Co-operatives	producer	Local/regional	Milk producers, suppliers	Problematization/ interessement	To continue, improve their business
Small shops	distribution	Local/regional	Selling of milk products	interessement	To develop business
Local municipality	Regulatory	Local	Support at local level	Interessement	To improve local socio-economic situation
Agricultural advisory bureau	Regulatory politics	Regional	Consultancy	Interessement	To support local rural businesses
Government quality control	Regulatory politics	national	Controlling institution	Interessement	To enforce quality standards
Business partners	Production/ distribution	Local/regional/ national	Business development	Interessement	To develop business
Cheese grandmother	Product design process	National	Product development	Enrolment	To develop new products
Jaunpiebalga branch	Producer	Local/regional	Production unit	Problematization/ interessement	To develop business
Bank	Production	Regional	Funding	Interessement	To develop business
EU Structural Funds	Production/ regulatory politics	Inter/National	Funding	Enrolment	Regional development
Supermarkets	Retailing	National	Distribution of products	Mobilization	To develop business
Exhibitions/ food fares	Food knowledge & discourse production/ Consumption	National	Distribution and popularization of products	Interessement	To popularize food, facilitate food business
Mass media	Food knowledge & discourse production	National	Marketing, popularization of the company and its products	Interessement	
Consumers	Consumption	Local National	Consumption	Enrolment	

5. Comparative analysis of principal case and satellite case focusing on the key themes addressed in the case study

5.1. Presentation of satellite cases

For the comparative purposes two national satellite initiatives are included in case study. They are: another regional dairy *Smiltenes Piens* and organic milk processing cooperative *Keipenes Piens*.

Satellite 1: *Smiltenes Piens*

Smiltene Dairy is a similar enterprise to the core initiative *Rankas Piens*. Geographically the company is located in the same region; it is approximately of the same business size, turnover, and number of employees; the structure of production is comparable to that of *Rankas Piens*. The modernisation history in recent years has also been quite similar – the company has used SAPARD funds and bank loans to rebuild production facilities and equip in accordance with EU quality regulations. The company's marketing strategy though is less developed in comparison with *Rankas Piens*. In the next few years *Smiltenes Piens* plans to specialise in certain products, develop new sustainable type of products, consolidate marketing and diversify in other types of business initiatives (for instance, agro-tourism).

There are several reasons why we propose this company as a satellite initiative. *Smiltenes Piens* co-operates more with small milk producers from the region and thus potentially contributes more to local/ rural development than *Rankas Piens*. We want to explore these organizational relations, cooperation among producers to organize system of milk collection. Comparison of two regional dairies may discover differences in up-scaling and innovation approaches. *Smiltenes Piens* is an example of a different management style and internal organization of the company as different response to similar problems.

Satellite 2: Organic milk dairy *Keipenes Piens*

Keipenes Piens is a small-scale local dairy collecting and processing organic milk. This is a new initiative and the first company in Latvia that processes and distributes organically produced milk. It was started in 2004 by a group of organic farmers with the aim to develop separated organic milk processing. (Besides, it was one of the first organic farmers' collective market initiatives.) In the co-operative of *Keipenes Piens* there are 12 members, for now only 4 of them are milk suppliers.

Keipenes Piens was chosen as a satellite case to compare up-scaling and development processes at different dairy sectors – conventional and organic. (As it was described above, *Rankas Piens* is still operating in conventional dairy sector even if at some aspects it witnesses sustainabilisation of mainstream food chain.) As such it would let elaborate more on organic sector development issues, which recently is experiencing dynamic. Inclusion of Keipene in the case offers also a possibility to compare initiatives at different development stages – Keipene dairy is a newly established cooperative, whereas Ranka dairy is operating since the beginning of 1990-ies with well-established solid production and distribution structure nowadays.

5.2. Comparison of principal and satellite initiatives

(1) Sustainability has different meanings to each case initiative and there are stressed distinct aspects. In *Rankas Piens* it is interpreted mainly in economic terms: the company is primarily oriented towards increasing volumes of production and market share. Technological modernization, investment, concentration of production, and new market channels are parts of this strategy. The other sustainability aspects such as quality of production, introduction of new healthy products, orientation towards specific customer groups, developing side-line businesses (e.g. agritourism), impact on multifunctionality, local ownership are fringe effects of economic sustainability. In the future when “modernization loans” will be paid back the company plans to build their market strategies on quality, health, regional and niche production.

In *Keipenes Piens* the economic aspect of sustainability is crucial as well. (At the present moment it is even the most acute, as the ecological and social aspects of sustainability are better ensured in the case.) The dairy is looking for how to ensure constant and stable business running, to balance demand and supply. There are made investments, even if moderate, in the building, equipment and machinery. Still, in terms of economic performance the organic milk processing business is not profitable: the losses are covered by the revenues from the sells of fodder. Nevertheless the dairy stresses much more the importance of environmental and social aspects of food production and consumption than growth and profit despite the obvious need to reach also economic stability.

Table 4. Comparison core and satellite initiatives along sustainability categories

Category taxonomy	<i>Rankas Piens</i>	<i>Smiltenes Piens</i>	<i>Organic milk cooperative Keipenes Piens</i>
<input type="checkbox"/> Regional development initiatives	Yes	Yes	Yes
<input type="checkbox"/> Environmental initiatives	Yes	-	Yes
<input type="checkbox"/> Producer co-operatives: collective branding and marketing	Yes	Yes	Yes
<input type="checkbox"/> Producer co-operatives: artisan production	No	No	No
<input type="checkbox"/> Promotion of regional products through cultural/public events	No	No	Yes
<input type="checkbox"/> Retailer initiatives	No	?	No
<input type="checkbox"/> Quality assurance labeling	Yes	Yes	Yes
<input type="checkbox"/> Organic supply chain initiatives	Yes	?	Yes
<input type="checkbox"/> Direct selling-short FSCS	20 % of sales	Yes	Yes
<input type="checkbox"/> Public sector procurement	No	?	No
<input type="checkbox"/> Health initiatives	Yes	?	Yes

(2) Organization and management

Although both Ranka and Keipene dairies in their legal forms are collective companies – joint stock company and cooperative – there is low involvement of members in both cases. The passivity of the farmers, lack of interest, lack of appropriate knowledge and skills to participate in the company’s strategic planning and decision making makes both dairies rather centralized. Both dairies are characterized by a one-person management style: they are directors themselves who

perform several functions and keep the control over the various processes in the dairies. Still there are also some differences in the reasons behind that. In *Rankas Piens*, the centralized mono-governance seems to be more a management tradition resulting from entrepreneurial, charismatic character of the executive director. He has taken up the leading role and actively participating in all the production – distribution stages in the company from the very beginning. In the meantime he is highly legitimized by the rest of the stakeholders. In *Keipenes Piens* the director is expecting higher engagement of stakeholders and is needing additional management staff; however, it is impossible to engage more professionals because of financial shortcomings even if there is an urgent need for them. Therefore, there is no evidence that regarding organizational and management performance sustainable agriculture (market) initiatives would be more inclusive and co-operative than those set up at conventional sector.

The case demonstrates competent management as a crucial precondition of up-scaling. In particular it illuminates the aspects of one-person management: whereas at some stage centralized mono-management may be advantageous for successful business performance because of concentration of knowledge, responsibility, control etc., together with scaling up and diversification of business it becomes complicated to continue it. Moreover the short-coming of centralized and one-person management, even if accepted and legitimized, is unequal power distribution among stakeholders.

(3) Move towards quality (sustainable?) production

There is a rather high competition in conventional dairy sector where Rankas and Smiltenes dairies are performing; locally and regionally based they seek to expand on national market using contracts with supermarkets and developing their own independent retail branches. They look at each other as fierce competitors. Each of them face a need to distinguish in the saturated milk market. It has stimulated *Rankas Piens* to develop qualitative aspects of products, on which also the communication with consumers is based: they carry out various marketing activities with the use of the brand and the discourse of healthy life style, there is developed own brand and used the slogan of healthy lifestyle. *Rankas Piens* is more advanced in developing new products and their marketing comparing to *Smiltenes Piens*. Some of these products are original recipes, contain organic ingredients (e.g. rye bread yogurt, which has been awarded a prize), offer new concept of healthy product and bare private labels (e.g. “Healthy Lifestyle” label). They have invested in technological modernization and received quality certificates (e.g. HACCP and certificate of Food and Veterinary Service) that allow them potentially to enter export markets. Keipene dairy process and produce only organic products and in this aspect they have already a specific dairy niche products. Still consumers do not recognize them and are not ready to pay higher price.

Nevertheless the small and medium farmers are less involved because of their minor importance for the processing company and weaker negotiating power. The dairy’s strategies of their suppliers preferences (smaller versus bigger) influence the further structural composition of dairy sector. The companies differ with respect to their networks of local suppliers: *Rankas Piens* cooperates predominantly with large producers. *Smiltenes Piens* has a more balanced supply network. *Keipenes Piens* has a narrow supply network composed of four local medium-size farmers.

(4) Mobilization of public support

Public support – financial, consultancy and/or legitimation – is relevant in up-scaling in all three initiatives. Especially, it is crucial when starting up completely new initiatives (*Keipenes Piens*) or introducing innovative elements in former conventional performance (*Rankas Piens*) that let to reduce risks and to form more favourable environment for initiative. It is of more difficult to mobilise and to receive support for new initiatives that somehow counter with the usual practices or which do not correspond well to the mainstream trends. Ranka and Keipene represents in this regard controversial initiatives: Ranka dairy fits well in the established rural and agricultural development model focused on intensification and production increase. Whereas Keipene dairy meets difficulties because of the lack of both formal and informal public support - shortcomings in the (non-) existing organic production regulations and lack o supportive measures and incomprehension of organic in public in general.

Besides the availability of public support there is needed a capacity - financial and human resources, infrastructure, etc, - to attract it. *Rankas Piens* demonstrates multi-approach to mobilise various forms of public support. It has been successful to attract the available public financial support – national and EU subsidies. The successful performance of *Rankas Piens* is facilitated by the support of various rural development agents – advisory service, local municipality, bank, farmers, etc. It ensures both the legitimacy of the initiative as well as serves as a source of knowledge and skills. It seeks for collaboration and recognition at professional networks – it is a member of Milk Producers and Processors Association.

The case also questions goals and outcomes of public support and the relevance between them. F.i., what is the impact of the intensification aim of agricultural policy on rural development – how does up-scaling of Rankas Piens (which on a big extent is possible thanks to available public funds) would influence the local dairy farming structure. As the dairy prefers to collaborate with big milk producers (that is reflected in the contract system more favourable to big than to small farmers, different influence in decision making), smaller farmers are in disadvantageous position that is aggravating their situation and possibly endangers their future.

(5) Contribution to rural development

Because of larger scales, the use of regional resources and contribution to local development in several aspects (employment, support to local social life, local infrastructure, etc.) are more evident in the both conventional dairies. Nevertheless the two companies are of different importance to the local economies a part of which they are. Smiltene dairy is located at a entrepreneurially highly active town with a rather well developed economic and social infrastructure. Whereas *Rankas Piens* is one of very few active enterprises in the comparatively remote rural municipality and therefore it has a higher burden of social responsibility. *Keipenes Piens* in this aspect resemble more to Ranka dairy – it is animating the socio-economic life of a rather distant village.

The most positive environmental impact might have *Keipenes Piens*, which is supporting organic farming development in the region with the consequential positive effects on the local biodiversity, landscape, etc. In Ranka and Smiltene the most of suppliers are conventional farmers and with their preferences of large suppliers they sooner stimulate intensive farming. Nevertheless, Ranka dairy takes up measures to reduce negative external effects, like investments in equipments and treatment plan to reduce pollution.

All three dairies are also important to enrich the local social and cultural landscape, they are rather rooted in the local socio-economic and cultural system, sustaining and developing the intra-regional activities and resources, like networking among local actors, milk production tradition and knowledge. All the dairies use of local resources: most milk suppliers come from the region, management and workforce is local, as well as the development ideas are also generated within the region. There is evidence of enhancement of social inclusion in Ranka and Keipene, like support to NGOs. Despite those contributions to local social life, the case does not witness high impact on self-organizational capacity among local people, e.g., farmers. In the meantime the bridging capital has been increasing: there is firm trust between most of the farmers and the processors, between the dairy and rural development agencies (rural advisory service, local municipality, bank). Personal contacts and trust among farmers and dairy managers, and between dairies and regional rural and business support organisations are crucial driving forces of the initiatives.

5.3. Summarized lessons learnt

In the situation of tough competition in the saturated conventional food market, production of niche products (as sustainable, special quality, regional products) and their promotion in the market through appropriate marketing strategy announcing all the products qualities is a considerable survival and/or growth strategy. Sustainability aspects become to be introduced in marketing communication. Still, there are different understandings of sustainability, which are differently applied at different business initiatives, and that includes a possible threat to transparency and trust to sustainable products across the food chain.

Regarding specifically organic products, still the limited organic food market, no demand for organic products and shortcomings of organic raw materials inhibit the development of organic processing. There is needed support for organic education and marketing initiatives.

Regional alliance and trust between farmers, company (shareholding system) and other local and regional agents, rooted in regional patriotism, create favourable conditions for a company's commercial performance and is beneficial for the collaboration between farmers and the company. Local patriotism and commitment to local company is a factor increasing business security. Regionality as regional origin of products can be more aware and effectively used also in marketing strategy.

Accumulation of resources in the region through local business initiatives sustains the socio-economic animation of countryside and in long-term contributes to the establishment of other economic activities and creation of jobs in other branches.

Leader plays the important driving and mobilising function in a project. However, even if legitimized, the influential role of leader, accompanied by farmers' passive engagement in a cooperative, results in centralised and low-participatory management and communication style. There is a need to strengthen relations with members in terms of improved contractual relations, payment, exchange of information, communication, advice and support to increase their role in the decision making of the specific company as well as to strengthen their position in the food chain in general.

Accumulation and use of internal and external knowledge - professional leading team accompanied by the use of external experts when needed - improves business performance.

Public support (funds, advisory, legitimation) is crucial for the start-up and/ or up-scaling of new initiatives. The relevance of public support (as well as regulations) to the needs of stakeholders stress the importance of the involvement of stakeholders in the design of public support. The efficient use of the available public support depends a lot on the capacity of the organisation to capture and to use it.

6. Discussion and conclusions

The initiative allows addressing and analyzing the following SUSC-HAIN hypothesis:

Sub – Hypothesis 1 “Scaling up depends on commercial performance and appropriate public support”

The case provides approvals of this sub-hypothesis as the scaling up bears evidence here at several aspects. Since the company’s establishment in 1993, and restructuring in 1996 *Rankas Piens* has experienced growth and it has turned into an important regional dairy, the 7th largest in Latvia. Commercial performance indicators have improved. There has been developed own marketing network - own distribution channels, export, new links to consumers. The dairy has kept on its initially stated continuous innovation strategy - there have been developed new product lines and products, including sustainable products and use of organic ingredients, search for new markets has resulted in a broader distribution area, investment in technology has been a crucial factor, improved internal and external quality control have accompanied the growth process. Together with the initiative’s growth in commercial performance its network has expanded in terms both of business and social partners. On a big extent those improvements have been possible because of the available public support - national and EU subsidies, high legitimization of the company from the side of local/regional authorities and public in general, access to public consultancy and knowledge - that afterwards the dairy's capacity to effectively use it.

Preliminary conclusion regarding sub-hypothesis 1: Trade mill of scaling-up: The development of *Rankas Piens* is an example of modernisation and rationalisation of dairy sector in Latvia. Enterprise that modernises, scales up, improves commercial performance, expands on national and export markets faces a development challenge – at some stage it has to become multifunctional, diminish dependency on milk suppliers, escape risks of mono-production, diversify and specialise, compete for consumers, develop new products, try new marketing initiatives, even get involved in “other”, non-dairy FSCs.

Sub – Hypothesis 2: “Nature of organisation changes with scaling up as an effect of growth in market power and of the increased pressure of economic constraints and logics”

Sub-hypothesis 2 is the central hypothesis for this case. Together with up scaling processes marked above, the organizational and management difficulties and challenges have appeared. The main observations are as follows:

- The nature of organization changes slower than the process of scaling up takes place;
- Market expansion, improved commercial indicators, and expansion of networks require change in the nature of organization and management;
- Adoption of external and internal quality management systems is not enough to solve this problem;
- The conflict between one person based and team based management styles sharpen during modernization;
- One leader based management cannot deal with increasing complexity of production; there is a need for more collective decision making and management style;

There are several organizational threats: passive involvement of small shareholders, ambiguous interests of small shareholders (price-for-milk interests versus commercial performance interests of the company), relatively weak role of the board, concentration of decision making power in the hands of executive director (no decisions are made without his supervision) and difficulty to conceive all the complexity, managerial stress and burn-out risk for the leader, relative weakness and reduced responsibility of managerial team.

The organizational opportunities include:

- Management and decision-making transparency;
- Strong, innovative and entrepreneurial personality of the leader – he has been the driving force in scaling up;
- Consolidation of managerial team;
- Loyalty and motivation of employees;
- Ability of leader to reflect on managerial difficulties;
- Willingness of leader to change the managerial style;
- Availability of advice from consultants and other executives.

Preliminary conclusion regarding sub-hypothesis 2: Scaling up is associated with deepening of market engagement and complication of network relations, it generates organisational and managerial difficulties, and the main challenge is to shift from one-leader based “homo-centric” management style towards a team-based management, that better suits the complex FSCs.

Sub – Hypothesis 3 “NFSCs have a positive effect on rural sustainable development”

The case manifests effect on rural development, however, it varies regarding various its dimensions. The dairy has several positive impacts especially with respect to local economy, like contribution to local employment, income generation among shareholders in the region, contribution to local infrastructure. There are also some indirect benefits like taxes, relations to other businesses and business development in the region. The dairy contributes as well to the social life of local community and at some extent increases social capital - consolidation and development of local knowledge, skills and traditions, support to cultural events and NGOs, increase of bridging capital between rural agents, business – public relations (relations with business support organisations, state regulatory services, charity activities). The positive environmental effect is less evident as the dairy is conventional one and it is collaborating mostly with conventional farmers. Nevertheless the highly set quality standards and control at milk processing stage less to reduce direct environmental risks resulting from the dairy's performance.

However, there are also some controversial issues regarding rural development. There is evidence of the dairy's impact on structural consolidation of dairy farms; whereas benefit for large dairy farms is clear, the company's relations with small farmers are less advantageous for them. Also the centralised management style and governance practices do not stimulate bigger engagement of farmers in the dairy's decision-making and have not increased their self-organisation capacity.

Preliminary conclusion regarding sub-hypothesis 3: Because of long-term and short-term effects and complicated interrelations between various economic, social and environmental goals, the balance of NFSC positive impact on various dimensions of rural sustainable development is not evident. As the case initiatives illustrate, there is a duality and misbalance of accents in the

sustainability practices – better economic viability chances together with poorer ecological and social concerns versus strong ecological commitment accompanied by some social considerations (f.i., employment and well-being of farmers, health and education of consumers, etc.) and economic instability and insecurity.

Apparently, at this stage the dairy has approached its up-scaling optimum. Probably, because of the situation in dairy sector - limited raw milk volumes, competition in dairy market - the dairy will not grow much bigger, sooner there will be introduced another (more sustainable?) novelties in its performance. Further accumulation of resources in the region might facilitate establishment of other economic activities and creation of jobs in other branches. Its local embeddedness would naturally lead to build economic connectedness within the region. With respect to organisational issues, as it has been stated, there is a need to overpass central governing style and to consider more involvement and collaboration with farmers. (From the point of view of the dairy it is an ambiguous issue as the farmers' negotiation power might increase and the power and control revised. In the meantime there might be advantages in terms of even more trust and commitment from the side of farmers to *Rankas Piens*.)

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