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The Language of Demutualisation: The Case of Dakota Growers Pasta Cooperative

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How does a value-added agricultural co-operative, owned by member wheat farmers and incentivised by state tax payers, end up in the portfolio of a multimillion dollar multinational corporation? In other words, how is an agricultural co-operative demutualised? Dakota Growers Pasta Company (DGPC) began in 1994 as a locally owned, locally controlled co-operative, organised by and for local farmers. After demutualisation, DGPC was acquired by a series of multinationals who, despite promises to keep DGPC locally oriented and controlled, shifted headquarters from North Dakota to Canada to Switzerland to Missouri and beyond. This paper describes the impetus for these acquisitions by focusing on the discourse that opened the doors to demutualisation, loss of local ownership and control, and eventually, appropriation by multinational investor-owned corporations. Fraser's (1989) four discourse frames — privatisation, opposition, reprivatisation, and expert — are used throughout the paper to describe the debate and decision within the co-operative. The paper concludes with recommendations that could help co-operatives and state policy makers mitigate similar demutualisations in the future.

Dakota Growers Pasta will still be a neighbourly pasta maker, controlled by North Dakota farmers, with no difference in daily operations, but with possibilities for greater growth and returns.
(Synthesis of comments supporting DGPC's demutualisation).

Timeline of Acquisitions

Post Holdings, Inc in St Louis, Missouri, announced in 2013 that it would purchase Dakota Growers Pasta Company (DGPC) from Glencore Xstrata for \$370 million (Schroeder, 2014). Post is one of the largest ready-to eat-cereal producers in the world with 2013 net-sales of more than \$1 billion. Glencore acquired DGPC as part of acquisition of Viterra International. Glencore (headquartered in Baar, Switzerland) is the largest commodity-trading firm in the world, ranked 14th on the Global 500, with \$186.2 billion in revenues (Onstad et al, 2011). Glencore purchased Viterra for \$6.2 billion in 2012. Viterra, a multinational grain handler headquartered in Regina, Canada, was formed in 2007 from an amalgam of three grain co-operatives and a private firm (Agweek, 2010). It acquired DGPC in 2010 as a subsidiary for \$240 million.

These firms, including Dakota Growers, operate as investment-oriented firms (IOFs). However, Dakota Growers was originally organised and started operations in 1994 as a new generation co-operative with facilities in Carrington, North Dakota and New Hope, Minnesota. DGPC supplied branded and private-label pasta products and flours to North American retail, foodservice, and food ingredient companies (Hoovers, 2010). DGPC's 1999 annual sales were \$297.4 million.

In 2002 Dakota Growers demutualised to a publicly held company. Of its 1,155 co-operative members, 1,115, or 83 percent, voted for conversion. Demutualisation was unexpected given the company's success, North Dakota's history of championing co-operatives, and populist local sentiment opposing "big business" (Mooney, 1995). Yet demutualisation occurred, a critical change that led to dis-embedding farmers from DGPC and multinationalisation through a series of acquisitions.

Gray, Stofferahn, and Hipple (2014) detailed this history in a *Historical Retrospective on the Conversion and Multinationalisation of Dakota Growers Pasta Company*. This paper highlights the above case study pertaining to the demutualisation and how language was used in the struggle over the decision. Fraser's (1989) model of critical discourse analysis was used to

parse out various linguistic and political-economic influences on the decision. From a historical perspective, Fraser contends that three narratives — oppositional, reprivatizing, and expert discourse — tend to frame controversial issues in the larger late-modern, socio-economy. Drawing from Fraser (and Prieur) the following section provides a conceptual frame for parsing societal discourse struggle in anticipation of its application to co-operative demutualisation.

Needs Struggle and Critical Discourse Analysis

Fraser (1989) and Prieur (2006) suggest that in the larger socio-political-economy, needs struggles occur between groups within particular social categories (eg, class, race, gender), between regions, and competing organisations. The groups often tend to be arrayed in opposition to each other in superordinate, subordinate relationships. In a societal context of limited access to resources, struggles occur over the definition of unmet social needs and the location of responsibility for meeting them (eg, at the individual or family level, in the larger civil society, in the dynamics of markets, and/or with government).

Narratives emerge from these struggles that justify respective interests (though the discourse itself may be presented as scientific and neutral). Fraser (1989) suggests that, historically, dominant or superordinate societal groups — by class, race, gender, region, and even economic organisation — have pushed a privatising bent into everyday lay analyses of societal problems, often placing responsibility for meeting unmet needs at the individual and/or familial levels. Problems such as poverty, hunger, worker safety, farm and rural community survival, food safety and nutrition tend to be defined as embedded within individual or familial responsibilities, with little if any call for resource redistribution from privileged to more vulnerable populations (Fraser, 1989).

However, broader societal conditions of inequality and disadvantage can produce such severe difficulties — high unemployment, malnutrition, poverty, massive family-farm loss — that breakdowns may occur in superordinate narratives. The weight of social and economic needs may become so obviously public that they trigger sensitivities beyond the private sphere. For example, framing socio-economic difficulties as, “they’re solely individual or family problems” may be displaced in a struggle allowing more “oppositional discourse frames” to gain greater visibility.

These alternative narratives (eg, internal dependency/colonial theory and alternative agriculture) may take shape in a manner that identifies larger societal barriers which can keep people in poverty, industrial behaviours which place workers at risk, exploitation of farmers and rural communities resulting from demand for cheap food, cheap labour, mineral resources, and environmental dumps for the larger civil society. In the narrative struggle process, arguments may be legitimated around “oppositional frames” calling for realignment of societal resources away from dominant privatisation logics.

Fraser and Prieur argue, however, that oppositional discourses are not likely to go unopposed. They suggest a swing-back may occur where “reprivatization” discourses emerge challenging “oppositional” frames. Such narratives, while acknowledging some social-economic need as legitimate, often redefine responsibilities back to the private individual and domestic sphere. These “reprivatization” narratives may take shape in phraseology that states “yes, there exists some unmet needs of social significance” — unemployment, worker safety, commodity support, rural livelihoods, nutrition — but responsibility for meeting them belongs with individuals and families.

Counter-pushes, resistance, and struggle occur around needs definition; ie, who is included, and what is considered the responsibility of the larger society (Fraser, 1989). In addition, expert discourse tends to be used as a tipping narrative to give legitimacy to one narrative over another, though Fraser cautions that such frames tend to be conservatising and often have a reprivatizing bias.

Gray, Stofferahn, and Hipple (2014), Stofferahn (2010), Mooney and Gray (2002), Mooney, Roahrig, and Gray (1996) have applied Fraser’s expert, oppositional, and reprivatization

discourse frames to examine agricultural co-operative demutualisations. Co-operatives are understood in these analyses as “oppositional narratives” both:

- 1) internally in terms of organisations for use rather than for return on investment, and
- 2) externally in opposing firms holding predominant market positions; ie, monopoly/oligopoly and monopsony/oligopsony.

Here we seek to outline the shape of narrative frames used in Dakota Growers’ demutualisation struggles. We draw from news accounts and editorials; the DGPC board’s Security and Exchange Commission (SEC) demutualisation filing, and personal interviews with co-operative knowledgeable. Ultimately we hope to contribute to a conversation that can help mitigate demutualisations (or what are essentially political-economic de-democratisations of farmer-member organisations).

Demutualisation Discourse Struggle: Dakota Growers

Frames supporting demutualisation

In a context of durum delivery problems, the Dakota Growers’ board considered various factors and recommended demutualisation. The board used neoclassical economics as the dominant discourse to initiate the discussion, supported by various “expert” accounting and legal narratives. Earlier work by Schrader (1989) and Collins (1991a, 1991b) identifies four motives for co-operative demutualisations: equity liquidity, equity access, corporate acquisition, and cost of equity. The Gray, Stofferahn and Hipple (2014) analysis found evident two of these discourse frames: equity liquidity and equity access.

The board argued that, given some farmer-members’ delivery problems, many wanted to cash in their membership equity, especially those nearing retirement. The sale of delivery rights was by contract and limited to farmer-members. (As a new generation co-operative, membership was not open and output delivery was limited by contract.) The board argued that demutualisation would infuse non-member investor dollars into DGPC (equity access) and members would have a market to liquidate their equity (equity liquidity).

Board/management also argued that expansion was essential to compete in the pasta market, that access to equity was needed to fund expansion and demutualisation would provide that access. Becoming a “major industry player” was a central discussion theme. According to this narrative, conversion would make more capital available from a broader range of investors and financial institutions and permit various expansionary scenarios.

Frames opposing demutualisation

People opposed to demutualisation tended to rely upon narratives linked to co-operative founding principles and understandings. Two of these respectively were:

- 1) voluntary-populism, and
- 2) social class/collective action.

The voluntary-populist narrative blends the discourse of populism and voluntarism into conceptions of co-operatives. Populism refers to “political ideas and activities intended to represent ordinary people’s needs and wishes” (Cambridge online dictionary). Voluntarism refers to social action where individuals freely join a social movement, collective action, or an organisation to achieve social, economic, and/or political goals.

Individuals voluntarily form co-operative organisations to achieve goals, often for a group of individuals at some socio-economic disadvantage relative to more powerful interests. Mutual interests among these individuals is central to organisational formation. They take collective action to gain voice and power to achieve some end; eg, develop a market, receive higher product prices, and/or lower input prices.

The most common oppositional discourse used to oppose DGPC demutualisation was the **voluntary-populist frame**. Opponents raised concerns such as loss of:

- 1) democratic control,
- 2) the one-person, one-vote principle,
- 3) control to out-of-state, non-farmer investors,
- 4) patronage dividends paid to members, and
- 5) information provided via meetings and newsletters.

Opponents were also concerned about the

- 6) concentration of power by the board of directors and management relative to members.

Class discourse has a different starting point than narratives embedded in populism. In populist analyses, the individual is the initiating focus for understanding and action. Groups and voluntary organisations (co-operatives) come together and pursue goals based on similar ideas and values. They then pursue these ends as a group, held together by common ideals, values, and preferences (see social idealism; Hinkle, 1994).

From a **class/collective action** perspective, the class itself is the central focus for understanding. Class is not just a group of individuals with similar ideas, values, and interests coming together to pursue some end. Instead there is commonality in how people make a living, or earn their “material” means of survival in the economy (see social materialism; Hinkle, 1994). Farmers have a common material relationship in earning a living through a basic production relationship to land and agriculture. Historically family farmers have generally been in subordinate relationships to more powerful interests and organisations in the larger socio-economy — though this is highly variable by production type and region. Our focus here is on North Dakota durum farmers finding it necessary to collectivise. (More generally farmers are in complex relationships of managing, employing, labouring, owning, and renting such that our class designation would not apply) (Mooney, 1988).

In DGPC’s case, class narratives, though over-lapping with voluntary-populist discourse, tended to focus on the loss of the co-operative organisation as a vehicle to empower farmers as a group. Though not as prevalent in the narrative struggle, the social class/collective action frame argued that demutualisation would result in the loss of agency as a self-help organisation with the capacity to:

- 1) oppose big business,
- 2) countervail non-North Dakota corporations,
- 3) advocate for yeoman farmers and their families,
- 4) act in the farmers’ collective interests as a group,
- 5) protect producer-generated capital, and
- 6) possess sufficient organisational capacity to influence their destiny as family farmers.

Reprivatisation narratives

From a reprivatisation perspective, oppositional comments tended to present in a “yes/but” form that served to dismiss their agency. For example, demutualisation proponents argued that, yes, co-operatives were a superior form of business organisation, but conversion to an investor-owned firm was necessary to avoid business failure and achieve necessary expansionary goals. Yes, conversion would be unfortunate, but the investor-owned firm would remain a self-help, neighbourly pasta maker. Yes, selling stock to non-farmers could result in non-farm influence, but the new company would still be owned and controlled by North Dakota farmers. Yes, out-of-state interests would likely invest, but conversion would keep stock in farmers’ hands and still allow them to deliver durum to the company. And, yes, durum would be sourced from a much larger area, but the new company would retain its value-added emphasis.

These arguments were reinforced in news accounts where co-operative leadership maintained that operations would not be significantly different. Indeed, members might expect greater returns under an investment structure, while day-to-day operations would not significantly change. When the vote for conversion was conducted, demutualisation narratives prevailed. Eighty-three percent of the members voted for conversion.

Post Demutualisation Study

Analysis of post conversion interviews revealed a mix of concerns and reservations. Members had regularly received information about DGPC through meetings, newsletters, quarterly reports, and annual meetings. After conversion this flow of information all but disappeared. Board members became very “closed-lipped,” and rumours tended to fill the void in the dearth of information. Some members interviewed expressed cynicism and embarrassment. They had thought a market would develop for the shares and that liquidity — even windfall profits — could occur. These predictions proved premature if not outright wrong. Equity liquidity, an important incentive for conversion, had not materialised. Although many members were willing to wait for a market to develop for their shares, there was considerable frustration regarding how long the wait might be. Further, and more generally, their sense of control or influence over their destiny was drastically diminished. These reactions were not unanimous. Proponents for conversion could still be found.

Debate had occurred through newspaper articles, letters to the editor, and in member meetings. However as with many large and complex co-operatives, an asymmetry of technical information and resources existed between management and the board and members. This asymmetry gave an information advantage to those board members and managers in favour of conversion. The tipping group was made up of older farmers displaced from production (by blight), not finding a market for their shares, and enticed by the promise of windfall profits. The equity liquidity narrative, a dominant reason for conversion, seemed not only appealing, but when sweetened with the promise of windfall profits, became a seeming imperative.

Conclusions

In 2010, when the DGPC acquisition by Viterra became final, all pretence of being a North Dakota “mom-and-pop enterprise” evaporated. This was followed by the 2012 Glencore and 2014 Post acquisitions. Demutualisation opened the floodgates to these large multinationals and ended Dakota Growers Pasta Company’s existence as a locally embedded, democratically controlled organisation designed for local farmers’ use and service. Instead it had become a subsidiary serving profit imperatives of these much larger absentee-owned multinationals.

The dominant logic “equity access, equity liquidity, reprivatisation” narratives largely went unchallenged, except by a minority of co-operative loyalists. No effective opposition emerged to challenge assertions about the necessity for conversion. Those committed to continued co-operative organisation lacked access to information and adequate resources to effectively critique the “expert” claims. Using privatisation frames, demutualisation proponents readily dismissed oppositional positions.

Recommendations

The SEC filing indicated that the board conducted only one demutualisation study. Its focus was primarily to determine which organisational form would provide better equity. No third-party studies were done to analyse potential conversion outcomes from a more even-handed perspective; eg, demutualisation or not, and outcomes parsed respectively by impact on the firm and on members.

More informed choices might have been made if scenario planning was used. This involves envisioning different scenarios about the future based on uncertain and influential drivers (Konno et al, 2014). Using the work involved in creating these scenarios, and the knowledge gained by constructing likely outcomes, the board could have projected the results of remaining a co-operative versus IOF conversion, including assessing the respective impacts on members and the firm. From this context, we suggest that if a co-operative board is considering demutualisation, we strongly encourage them (if not required) to contract with an independent third-party firm to facilitate such scenario planning. This option might be further strengthened by a bylaw change parallel to Canadian statutes that allows a minority (20 percent) of members to request a third-party performance audit and review of co-operative management practices.

The Authors

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