

Lincoln University Digital Thesis

Copyright Statement

The digital copy of this thesis is protected by the Copyright Act 1994 (New Zealand).

This thesis may be consulted by you, provided you comply with the provisions of the Act and the following conditions of use:

- you will use the copy only for the purposes of research or private study
- you will recognise the author's right to be identified as the author of the thesis and due acknowledgement will be made to the author where appropriate
- you will obtain the author's permission before publishing any material from the thesis.

**AN EVALUATION OF CHILEAN DAIRY FARMERS'
PERCEPTIONS OF THEIR VOICE IN THE GOVERNANCE OF
THE CHILEAN DAIRY INDUSTRY WITH PARTICULAR REGARD
TO THE NEW ZEALAND DAIRYING PRESENCE IN CHILE**

**A Thesis
submitted in partial fulfilment
of the requirements for the Degree of
Master of Commerce and Management**

**at
Lincoln University
by
K. Acosta-Galaz**

**Lincoln University
2010**

This Thesis is dedicated to my son Vicente, who was born while I was working on it and gave all the motivation and inspiration needed, my husband for all the support and patience, my mother for being so good and generous and my father who is always in my heart and memories. Everything that I have done is for us. Thank you very much. You have been my inspiration and support. Love you.

Dedico esta tesis a mi hijo Vicente, quién nació mientras realizaba este trabajo dándome toda la motivación, inspiración y llenando mi vida de luz, mi esposo por su constante apoyo y paciencia, a mi madre por su infinita generosidad, apoyo, amor y enseñanza y a mi papá que me enseñó a luchar y perseverar para lograr mis metas. Muchas gracias, ¡los amo!

CONTENTS

ABSTRACT.....	5
PREFACE.....	6
ACKNOWLEDGEMENTS.....	7
CHAPTER 1: RESEARCH PROBLEM	8
1.1 BACKGROUND.....	12
1.1.1 WORLD DAIRY SECTOR OVERVIEW.....	12
1.1.2 CHILEAN DAIRY INDUSTRY OVERVIEW	15
1.1.3 CHILEAN DAIRY FARMERS.....	20
1.1.4 NEW ZEALAND DAIRY INDUSTRY	22
CHAPTER 2: LITERATURE REVIEW	27
2.1 CORPORATE GOVERNANCE THEORIES	27
2.1.1 CORPORATE GOVERNANCE DEFINITIONS	27
2.1.2 THE MYOPIC-MARKET MODEL.....	28
2.1.3 THE STAKEHOLDER MODEL.....	29
2.1.4 COLLABORATIVE GOVERNANCE.....	30
2.2 STAKEHOLDER THEORY.....	34
2.2.1 DONALDSON AND PRESTON’S TAXONOMY OF STAKEHOLDER ..	35
2.2.2 STAKEHOLDER PARADOX	36
2.2.2.1 STAKEHOLDERS ANALYSIS AND SYNTHESIS	44
2.2.2.2 STRATEGIC STAKEHOLDER SYNTHESIS	45
2.2.2.3 MULTI FIDUCIARY STAKEHOLDER SYNTHESIS.....	47
2.2.2.4 NEW STAKEHOLDER SYNTHESIS	47
CHAPTER 3: METHODOLOGY	49
3.1 RESEARCH OBJECTIVES	49
3.2 METHODOLOGY.....	50
3.2.1 FIELDWORK AND DATA COLLECTION METHODS	52
CHAPTER 4: RESULTS	57

4.1	OBJECTIVE 1:	57
4.1.1	DAIRY FARMERS	57
4.1.2	AGRICULTURE AND DAIRY ASSOCIATIONS REPRESENTATIVES.	63
4.1.3	DAIRY PROCESSING COMPANIES REPRESENTATIVES	65
4.1.4	GOVERNMENT AGENCIES REPRESENTATIVES	65
4.2	OBJECTIVE 2:	67
4.2.1	DAIRY FARMERS	67
4.2.2	AGRICULTURE AND DAIRY ASSOCIATIONS REPRESENTATIVES	70
4.2.3	GOVERNMENT AGENCIES REPRESENTATIVES	71
4.3	OBJECTIVE 3:	73
4.4	OBJECTIVE 4:	76
4.4.1	DAIRY FARMERS	76
4.4.2	AGRICULTURE AND DAIRY ASSOCIATIONS REPRESENTATIVES.	81
4.4.3	DAIRY PROCESSING COMPANIES REPRESENTATIVES	82
4.4.4	GOVERNMENT AGENCIES REPRESENTATIVES	84
CHAPTER 5: DISCUSSION.....		87
CHAPTER 6: CONCLUSIONS		95
REFERENCES		100
APPENDICES		108
APENDIX 1: MAP OF NEW ZEALAND AND CHILE		108
APENDIX 2: CHILEAN MILK RECEPTION BY PLANTS AND REGIONS (2008-2009).....		109
APPENDIX 3: QUESTIONNAIRES.....		110

ABSTRACT

The relationship between the Chilean and New Zealand dairy sector come from the arriving of Fonterra, a big New Zealand dairy company, in Chile in 1987. Factors such as a free trade agreement between Brunei Darussalam, Chile, New Zealand and Singapore, the Trans- Pacific Strategic Economic Partnership (TPSEP) or P4, signed in 2005, as well as the natural geographic conditions of Chile have facilitated this development. The relationship between Chile and New Zealand has contributed to the entry of more New Zealand dairy investments in the Chilean dairy industry, especially Fonterra becoming the major shareholder of the biggest Chilean dairy company, Soprole. The possible effects of this are causing some concern for the Chilean dairy farmers. This study aims to evaluate Chilean dairy farmer's perceptions of their voice in the governance of the Chilean dairy industry with particular regard to the New Zealand dairying presence in Chile.

Keywords: Chile, New Zealand, TPSEP, dairy farmers, Fonterra, Soprole, governance.

PREFACE

This thesis represents a culmination of work and learning. It starts with a vague idea about the study of the influence of New Zealand in the Chilean dairy sector and then turned to a more specific topic which is to investigate the perception of dairy farmers about their voice in the governance of the Chilean dairy industry. It is impossible to comment on this subject without focusing on the New Zealand dairying influence in Chile. One of the most important and biggest dairy companies, Soprole, Fonterra is a private New Zealand located in Chile. Along with other New Zealand dairy investments, this expansion process has been encouraged by TPSEP international trade agreement between New Zealand, Chile, Singapore and Brunei Darussalam.

Early work proceeded in Chile collecting interviews from dairy farmers, agriculture and dairy association representatives, dairy company representatives and government agency representatives linked to the dairy activity in the country. Later, the transcriptions of the interviews, which were conducted in Spanish and the data analysis, were undertaken in New Zealand.

ACKNOWLEDGEMENTS

I would like to thank both my main supervisor and associate supervisor, Rick Fraser and Clive Smallman respectively, for lots of great inspiration, ideas, comments and mainly patience and comprehension. Especially for always having time to support me.

Thanks also to my boss in Chile, Jaime Tobar, always encouraged me to do this Master and support me. He provided me with all the contacts and resources to get the interviews during my field work.

Finally, lots of thanks to Scott Langdale-Hunt from Lincoln University English Language Center, who always helped me with both my study at Lincoln, my English and for being a very good friend and support while my family and I were in New Zealand.

CHAPTER 1: RESEARCH PROBLEM

Chile and New Zealand both have a long history of dairying together. Their histories became intertwined at the arrival of the first New Zealand Dairy company in Chile in 1987. New Zealand Dairy Board (now Fonterra Co-operative Group) formed a joint venture with Soprole, a private dairy company-founded in 1948. Until April 29th 2008, Soprole was 56.85 percent owned by Fonterra, 42.59 percent owned by the Isabel Aninat Foundation, a welfare institution belonging to the Catholic Church. 0.56 percent of the company was owned by minority shareholders (www.soprole.cl).

In late April 2008, Fonterra bought 42.59 percent of the Soprole owned by the “Isabel Aninat Foundation”, thus becoming the major shareholder of the company.

Fonterra is one of the top six dairy companies in the world by sales turnover (June 2006 Rabobank). It accounts for more than 30 percent of international dairy trade and is the world's leading exporter of dairy products. Fonterra, a dairy cooperative, was created in October 2001, when 84 percent of the farmers involved voted to accept the merger of the New Zealand Dairy Board, New Zealand Dairy Group and Kiwi Co-operative Dairies. The company currently has a presence in more than 140 countries around the world and is owned by over 11,000 New Zealand dairy farmers who collectively supply more than 14 billion litres of milk each year. These shareholders represent 95 percent of the New Zealand dairy farmers (Fonterra to lift shareholding in Chilean dairy company Soprole, 2008).

According to Porter (1998) and his Theory of Competitive Advantage of Nations, the reasons why a company makes the decision to enter into a new market are influenced by four different attributes that will determine its success. These attributes are: factor conditions, demand conditions, related and supporting industries, and firm strategy structure and rivalry. These attributes each comprise an individual system and together create the context in which the firms of a nation are born and compete. Porter also points

out two other external factors that need to be considered, chance and government. Each is likely to influence the other four factors.

Fonterra's successful performance in Chile has been determined by all of these factors. Chile, like New Zealand, offers advantages in all factor conditions, such as lower cost of personnel and land, proper climatic and geographic conditions for the development of the industry, etc. Furthermore the Chilean dairy market is demanding of innovation in dairy products, which according to Porter (1998) is a factor that creates competitive advantages for businesses which can meet the demand relative to local firms. Also the Chilean government promotes foreign investment and now with the trade agreement between Chile, New Zealand, Singapore and Brunei Darussalam has encouraged and facilitated market access for New Zealand firms into Chile2006 (Dirección General de Relaciones Económicas Internacionales [DIRECON], 2006).

In 2007, Soprole improved its overall market share to 34.6 percent, a 2 percent increase compared to the previous year (the Chilean dairy market grew approximately 18.6% in 2007). In comparison, the market shares of Nestlé, Colún, Loncoleche, Parmalat, Quillayes and other dairy companies were 19.1 %, 16.1%, 8.3%, 3.3%, 2.3% and 16.3 % (www.soprole.cl). Soprole has 5 plants distributed along the country, collecting nearly 23 percent of the total industry milk (Silva, 2005).

In recent years, New Zealand and Chile have been improving their relationship, which has been fortified through a trade agreement called Trans-Pacific Strategic Economic Partnership (TPSEP) or P4, signed among Brunei Darussalam, Chile, New Zealand and Singapore. The TPSEP was signed on the July 18th 2005 in Wellington, New Zealand and came into action in 2006 (DIRECON, 2006). From the beginning of the negotiations the dairy sector was the most sensitive for Chile, because the Chilean dairy farmers expressed concern about the entry of New Zealand given that it is widely known as a dairy power country. For this reason, a period of 12 years of tax reduction was negotiated for dairy products imported to Chile from New Zealand (DIRECON, 2006). However, the

trade agreement does involve the facilitation of market access and encourages development of partnerships and joint ventures between the two countries (New Zealand Trade & Enterprise, 2006).

The signing of the TPSEP created differing opinions about its effects in the Chilean dairy sector. The benefits of TPSEP would allow the Chilean dairy sector to take a big step up in terms of quality, technology, productivity, certification and national presence, in what are mainly international distribution and marketing channels. And because of this the Chilean dairy sector could obtain much “know-how” from the New Zealand dairy industry in terms of productivity, quality and commerce (Fresno, 2006). This would enable it to better compete in international markets and develop into a strong exporter of dairy products such as butter, cheese and powder milk. In contrast, both Fresno (2006) with Challies & Murray (2006) argue that there were some risks involving the entry of New Zealand dairy products into the Chilean market. These imports would lead to the reinforcement of internal disparities in the Chilean dairy sector and further damage small producers.

The purchase of Soprole by Fonterra is just one example of the influence of New Zealand in the Chilean dairy sector however it is the most significant, in terms of the volume of investment and this brings concern about the effects of New Zealand activity in the Chilean dairy sector. While it is possible to get some information from Fonterra web pages and Chilean electronic newspapers about what is happening, the information is very limited, particularly with regard to the level of involvement of the dairy farmers themselves.

For Fonterra the increased shareholding in Soprole is based on the strong performance Soprole has shown over recent years, returning around NZ\$ 25 million a year to shareholders. For Fonterra, Soprole represents an example of its strategies of leveraging cows-to-consumer expertise to build profitable business and ensure the provision of fresh milk around the world (www.fonterra.com).

In contrast, the reactions in Chile differ in some aspects from the Fonterra point of view. The president of the National Gremial Federation of Milk Producers of Chile (FEDELECHE), Enrique Figueroa, argues that despite seeing the purchase of Fonterra as a signal of trust in the Chilean dairy performance, it is possible to see a threat in this change, because there is a potential risk of a merger between Soprole and Nestle in Chile, they both together could reach the 43.7 percent of the dairy market share. This has happened in other countries such as Argentina, Brazil, Ecuador and Venezuela (Cristino, 2007) Figueroa would have preferred that the total control by Fonterra would not have happened. But it has been considered that Fonterra had effective control before and the new situation should not have caused many changes (Cristino, 2007). Furthermore the Isabel Aninat Foundation will keep minor participation in Prolesur, a subsidiary of Soprole that controls the purchase and processing of milk. And Figueroa argues that FEDELECHE can work together with Fonterra to develop new proposals in the future (Cristino, 2007).

Furthermore, it is widely known that during the negotiations between Fonterra and the Isabel Aninat foundation, the Chilean dairy farmers criticised the transaction. They thought it transgressed the spirit of looking after the rights of the dairy farmers supplying that the Isabel Aninat foundation had. They also were worried about the focus Fonterra would give to Soprole (Boom de la leche ¿con fecha de vencimiento?, 2007).

Additionally, in recent years, Chile has attracted the attention of New Zealand dairy farmers directly. Two of the most important reasons are the political and economic stability of Chile and the X Region which has an abundance of land that could be converted to dairy activities. In addition, the New Zealand technology is being transferred to Chileans dairy farmers. Between some of the New Zealand dairy companies in Chile are Chilterra and Manuka, which has some Chilean partner investors and have implemented the New Zealand dairy systems (Moraga, 2006).

In this context, this study aims to investigate the effects of the New Zealand dairy sector on the Chilean dairy farmers, in terms of their acceptance to this new scene of integration of New Zealand dairy companies, such as Fonterra toward the Chilean dairy sector which involves changes that directly affect their situations.

1.1 BACKGROUND

1.1.1 WORLD DAIRY SECTOR OVERVIEW

The world dairy industry is one of the most distorted agricultural sectors, with a complex system of domestic and international trade barriers (Cox & Zhu, 2005). The larger productive regions have policies of production and subsidies for production and exportation, not including quotas of import. Many countries with these kinds of regulations destine the majority of milk that they produce to the exports, which affects to they do not have subsidies. Despite the operation of a milk production-limiting quota system, the European Union (EU) remains the world's largest dairy market and milk producer. In fact, following the 2004 enlargement the EU has strengthened its already dominant position, with a total output of about 144 m³. The second largest milk producer is India with about 88 m³ (of which 47 m³ is buffalo milk), followed by the United States with 77 m³ (Organisation for Economic Co-operation and Development, [OECD], 2004). Despite technological developments in refrigeration and transportation, international trade in milk and products of milk represent only about 5-7% of world production of cow milk (intra-EU trade excluded). In contrast, international trade in dairy products accounts for about 48% of the production of whole milk powder (WMP), 27% of skimmed milk powder (SMP), 10% of butter and 7% of cheese. So there is a relatively small change in the supply/demand balance of milk and this may have a substantial impact on traded dairy products (OECD, 2004). Furthermore dairy products are usually consumed in the country of origin and consequently world export markets have few big players including

the EU, New Zealand, and Australia (the United States is important on the SMP export market) (OECD, 2004).

Dairy production in New Zealand is based on grazing with very low production costs. Around 97% of all milk produced is exported and the dairy industry accounts for almost a quarter of New Zealand's total export earnings. While New Zealand's share of world milk output is less than 3%, its share of world trade is more than 30% and growing. Similarly, Australia, with less than 2% of world milk production, supplies almost 20% of global dairy trade (OECD, 2004).

Dairy average bound tariffs remain between the highest of all agricultural commodities (Blayney, Langley, Miller, Normile, Somwaru, Stillman & Stout, 2003). Following the Uruguay Round of multilateral trade liberalization all nontariff barriers to trade were converted, through the process of tariffication, into tariffs. A system of tariff rate quotas (TRQ) was the most common system used by developed countries. International dairy markets have been benefited from trade liberalization due to the highly distorted domestic and international dairy markets (Larivière & Meilke, 1999). Countries such as Canada, The European Union (EU), and the United States have subsidized their dairy export products (Blayney et al., 2003). And according to Galetto (2008), during the years' post Uruguay Round, the dairy international market has changed, being able to be defined by three different sub-periods. The first one starts in 1995 and ends in 2003, the second one from 2004 to 2006 and the third one from 2007 in forward.

Between the year 1995 and 2003 the pattern of prices on the dairy international market was similar to the one that characterized the years pre-Uruguay Round (especially if the prices are corrected by the variation of the purchasing power of the dollar, which is the currency of reference on this market), low prices. Though the prices increased between the years 1995 and 1996, and even it managed to a positive impact of the Uruguay Round, these returned to fall down from 1997 to 1998 (Galetto, 2008).

The most important change in the sub-period immediately after the Uruguay Round was the relative participation of the different exporters in the international market, caused by quota constraints on milk production and limitations on the volume of subsidised exports. Since the EU lost importance, from 45% to less than 30 % of the exports, New Zealand guaranteed its condition of leadership, almost reaching the EU. And Australia supported its participation the same as The United States (Galetto, 2008 & OECD, 2004). In the second sub-period, between 2004 and 2006, the international prices were above the average values of the previous. In this sub-period it became increasingly evident that there was an influence with the exchange rate between the US Dollar and Euro, the oil price and the income level of the world population. Furthermore the US Dollar continues to be the reference to international prices (quotas), whereas the EU (together with NZ) continues to be the exporter of major importance maintaining the power of price fixing. And when US Dollar loses value opposite to the Euro, the international prices of dairy products increase (Galetto, 2008).

There also is a strong correlation between oil price and dairy products' price. The cause is about demand and not cost, and many countries that export oil import dairy products like Russia, Algeria, Mexico, countries in the Middle East, and some west of Africa (Galetto,2008).

Despite the distortions, the dairy sector is dynamic and has much growth potential, especially in Asia, where dairy consumption has been propelled upward by income growth, urbanization and westernization of diets. Furthermore, dairy is constantly experiencing food processing innovation, with value added opportunities in traditional products (Cox and Zhu, 2005 & Galetto 2008).

From December 2006 began a cycle that took the price of dairy products to exceptional levels, which was stimulating for the world dairy industry. However, in October, 2008 the milk price dropped from U\$ 4,988 to U\$ 2,494 the ton of SPM. Coming from a deficit situation with the consequently rise of prices to one of adjustment and regularization of the offer. It there joins the financial world crisis and the decrease of the consumption.

Therefore, the international prices returned to the values before the rise, which strikes very strong form the dairy farmers (Oficina de Estudios y Políticas Agrarias [ODEPA], 2009). Furthermore, the increase of the food prices (milk, meat, grains, etc.) and costs of the main inputs as fuels, electric power, grains (maize), rates of interest, etc., diminished the utility margins of the dairy farmers (Moura & Mujica, 2004). However this study was conducted during the year 2008, when the situation revealed little concern about the input prices and the industry was still positive about the future.

1.1.2 CHILEAN DAIRY INDUSTRY OVERVIEW

The different role that agriculture has played in the economies of both countries has determined the development of the respective dairy complexes. Also, transitions in the dairy sector have reflected some economic crises, government policies and shifts in production and trade strategies . During the last century the Chilean dairy sector suffered several reforms oriented to give more relevance to the agricultural sector (Fresno, 2006).

Until around the 1950s the Chilean agriculture was dominated by an uneven feudal mode of land tenure and under the hacienda system (large land-holdings that were an end in themselves as the marks of status). Agricultural exports were concentrated in wheat and the level of state involvement in agriculture was low. The later decades of the nineteenth century showed gradual improvement in the quality of livestock in Chile as new breeds were introduced, however capital investment and mechanisation in agriculture was generally very low. While the haciendas responded to the opening up of international export markets, especially for wheat, dairy did not exist as a significant agricultural sector. Government involvement was still low, and tended to only reinforce the hacienda system as the principal organiser of agricultural generally very low. While the haciendas responded to the opening up of international export markets (especially for wheat), dairy did not exist as a significant agricultural sector. Government involvement was still low, and tended to only reinforce the hacienda system as the principal organiser of agricultural production (Challies, 2004).

In the south of Chile large pastoral farms based on a more capitalist mode of production were developed following the arrival of immigrants farmers, mainly from Germany . After the depression of 1930, the agricultural sector gave way to a phase of state market development (Challies, 2004). In 1950s a decade of reforms was initiated as response to the effects of the depression. It was centred on reform of the land tenure system and involved the forming of bureaucratic state corporations and institutions (especially CORA¹, CONFSA² and INDAP³) to manage a process of expropriation and redistribution of land held in large estates.

Agricultural reform laws passed by successive governments to protect the peasantry and modernise the production, but largely failed to meet those objectives (Challies, 2004) .

One of the most significant reforms occurred in 1967 under the government of Eduardo Frei Montalva. Montalva looked for the modernization of the agrarian sector through the redistribution of land and trade unionism peasant (Challies 2004).

This was basically about diversification of the use of lands and giving more opportunities and competitiveness to more people within the agricultural sector (Portilla, 2000).

During the following years, the process continued until the beginning of the dictatorship in 1973, the lands were partially back to the owners. Between the 1980's and 1990's many companies took possession of small companies through joint ventures and takeovers, like the former New Zealand Dairy Board (Portilla, 2000).

1 : Corporación de Reforma Agraria) – to oversee the expropriation process.

2: Consejo Superior de Fomento Agropecuario – to establish appropriate development of expropriated land.

3: Instituto de Desarrollo Agropecuario– to provide technical assistance and credit.

In the south of Chile large pastoral farms based on a more capitalist mode of production were developed following the arrival of immigrants farmers, mainly from Germany (Silva, 2005).

The last two decades have been characterised by a Chilean government commitment towards open economy. This has led to significantly lower tariffs, by international standards, and has caused an increasing competitiveness in export-oriented and import-competing sectors and considerable integration into world markets (Silva, 2005).

The milk production in Chile increased from 1985 to 1998 at an average annual rate of 5.7 percent. From 1998 to 2003 it grew by 0.5 percent and from 2004 to 2007 the average annual growth has been 4.0 percent. The substitution for imports and domestic demand have been the determinant factors of the growth for more than one decade (ODEPA, 2009).

Dairy exports have been the key factor from 2004 to recover rates of Chilean dairy industry growth. Currently, there are 17 dairy companies, which have 29 processor plants along the country, which are mainly located in the central-south zone of Chile (see Appendix 1 and 2) . Soprole is the main Chilean dairy company, followed by Colún and Nestle and is 99.44 %owned by Fonterra. Soprole has 5 plants which collect about 25% of the industrial milk and produce more than 200 different kind of dairy products such as yoghurt, refrigerated dairy products and long life dairy products . Colún is the biggest dairy cooperative of Chile. This company just has one reception milk plant which is the biggest one in the country and reception about 21 percent of milk. Nestlé has operated in Chile since 1943 and operates 3 plants, which collect about 19 percent of the total of the industrial milk (ODEPA, 2009).

As of 2005, dairy exports represented less than 0.25 percent of all exports. In 2006 the trade balance increased when compared to the previous year, in volume and value. The trade balance exceeded US\$43 millions. In 2007, dairy exports reached US\$ 173,3

million, which is equivalent to 30 millions of milk litres, compared with the 2006 . Cheese is the main Chilean dairy product export, representing about 45 percent of the total Chilean dairy export increasing 29 percent (November 2007). During the 10 first months of 2007, 14,826 tons of cheese was exported (ODEPA, 2009).

Respectively Chile's 10th and 14th Region of Los Lagos and of Los Rios share many similarities with the dairy areas in New Zealand. However, the Chilean dairy sector has been oriented toward non-seasonal production for decades to be able to provide a steady supply of milk and dairy products to Santiago, the capital city and other population centres (Fresno, 2006).

There are a lack of policies that protect the national dairy production, the competition of dairy products from subsidized countries and the need to encourage domestic milk consumption through government and private actions . However, there is a program called PROMOLAC which is oriented to increase the domestic consumption of milk and dairy products financed by the government and companies (Deblitz & Ostrowski, 2001).

Although Chile can extend its influence on international dairy markets, its dairy industry needs an export-oriented approach to production and marketing. Which needs to invest in dairy farmers so they can upgrade to meet international quality standards (Vargas, 2001).

Currently, the Chilean dairy sector lacks the necessary financial and support services to modernize its dairy operations, especially using seasonal production, which is popular in New Zealand. Furthermore, veterinary, local insemination and contract labour systems needed to develop an efficient management of seasonal dairy operation (Vargas, 2001).

Since 2001, the government has been talking to the dairy industry's Association, FEDELECHE, about how to improve the competitiveness of the Chilean dairy sector. Both government and industry believe that Chile's milk production will continue to grow, facilitating increased dairy export growth. To capitalize on this opportunity, the

government and industry agreed on a set of 15 measures embodied in the 2003 Dairy Accord. The requirements of the Dairy Accord focus heavily on milk pricing and protection of milk producers from opportunistic behaviour on the part of dairy processors. Key components of this are increased transparency in pricing formulas, premium-based pricing, improvements in technical efficiency, provision of statistics, and the development of a seasonal production component (Fuller, Beghin, Boland, Babcock & Foster, 2006).

There are several agricultural and dairy farmer associations, most of which are regional. They receive and transfer information to their members, but have not achieved and do not intend to articulate strong synergies among their members. The main association is FEDELECHE. Its goal is “to develop, foment and protect Chile the milk production, by means of the promotion and the development of actions destined to improve the efficiency and yield of the producers and to obtain its organized participation in the definition of the policies that regulate their activity (Silva, 2005).

The existing precedents show that one of the principals is weak, and the national output relates to the lack of education in general and the lack of training, both of dairy farmers and of workers. The Chilean dairy sector uses in one very low intensity the existing instances of training (Dirven & Ortega, 1998).

The government through some of its institutions offer programs that support the dairy farmers in topics such as technology transfers, commerce advice, etc. One important program is the Programa de Desarrollo de Proveedores-Development of Suppliers Program (PDP), which is focused to support the integration of the dairy farmers (suppliers) to the productive chain in order to improve and stabilize the commercial link. This allows dairy farmers to achieve major levels of flexibility and adaptability, and the demand companies assure the quality of products and / or services in the productive chain (Corporación de Fomento de la Producción [CORFO], n.d.).

1.1.3 CHILEAN DAIRY FARMERS

The dairy farmers in Chile are classified as subsistence, small-scale, medium and large. About 80 percent of the Chilean dairy farmers can be classified as subsistence or medium to small-scale. These producers may specialise in dairy farming, but are far more likely to engage in a diverse range of agricultural productive activities (Dirven & Ortega, 1998). These operations are characterised by family labour, low levels of mechanisation and technology, and reinvestment. Therefore, production tends to be characterised by small volumes, high seasonality, low productive efficiency, and low quality (Dirven & Ortega, 1998).

Subsistence and medium to small-scale producers account for around half the national dairy herd and contribute 20 percent of national milk production. About 20 percent of Chile's dairy farming operations can be classified as medium-to-large enterprises. These are operations that tend to be capitalised relatively high, more dependent on mechanisation, science and technology and often employ waged labour. They contribute around 80 percent of national milk production and have lower seasonality, greater volumes, better productive efficiency and higher milk quality (Dirven & Ortega, 1998).

While large-scale operators are able to deal directly and individually with processing companies, most small-scale farmers must act collectively in order to achieve the required economies of scale. Some small farmers are organised into associations around milk collection and storage centres (*Centros de Acopio de Lecheros*, or CALs). The CALs, funded by incorporated farmers, act as central locations where smaller quantities of milk can be pooled and stored to await collection. The centres allow smaller producers to collectively achieve the volumes required by plants; provide the storage, cooling and cleaning equipment to quality standards; make for a stronger commercial bargaining position and have the potential to serve as a means for disseminating information among isolated and dispersed producers. However, there are some difficulties, and because the

companies' prior emphasis on quantity is being replaced with demands for increasing milk quality the smaller farmers are hostile to keep pace (Dirven & Ortega, 1998).

The limited resources of many CALs make it difficult for them to constantly upgrade and improve equipment. Furthermore, CALs combine milk from many different producers, which means that performance can be constrained by lower quality milk or poor practice. Raw milk that does not meet the quality requirements of the company – determined by cell counts, milk-fat content and bacteria counts – incurs a reduced price per litre. This price penalty is transferred from the centre to the producers, and fortifies a negative cycle by inhibiting investment in technology and better practice at both the CAL and the farm level (Dirven & Ortega, 2001).

Medium and large-scale capitalist farmers tend to deal directly with companies. They produce volumes large enough to justify the direct collection of their milk and have the income and capital to make ongoing investments in technology, information and practice. This enables them to better meet the quality standards. Many medium and large farms have a cooling tank on-site which allows the collection of greater volumes of milk. This helps reduce transportation costs and thus increases returns per litre. Furthermore, in general, larger operators tend to have a higher standard of education and better knowledge of relevant technologies than subsistence and small operators. And some of the newer entrants to the sector hold high-level university qualifications in agronomy and other relevant fields. Larger operations also have easier access to credit and are better equipped in this sense to withstand fluctuations in milk (Dirven & Ortega, 2001).

On the other hand, barriers exiting the sector are substantial for highly capitalised farms due to long-term strategies concerning investment in technology, innovation and genetic improvement of herds. (Dirven & Ortega, 2001) Also for most Chilean farmers the benefits end at the farm gate when their raw milk is collected. In other words they simply receive a price from their output with no further dividends or gains from the dairy

processors development. This is in distinct contrast to most dairy farmers in New Zealand.

1.1.4 NEW ZEALAND DAIRY INDUSTRY

Pastoral farming fortified the colonial economy and society from an early stage in New Zealand. In the 1880s, the disintegration of many large sheep stations following land reforms led to the establishment of smaller, more intensive family farms, and technological advances (most significantly in refrigeration) provided the conditions within commercial dairy farming could prosper . Government promotion and regulation of the dairy industry constituted a major strand of agricultural policy in New Zealand from an early stage. From 1896 the government provided courses in dairying techniques for farmers . The Dairy Division of the Department of Agriculture was formed in 1902 and officially recognized the importance of productivity and quality attainment . Work in these areas focused on pasture and herd research, led to the introduction of Jersey cows, organised herd testing and ream-grading standards . This period was also significant for Maori farmers, as dairy farming gradually replaced sheep farming in areas like the east coast of the North Island (Evans, 2004).

By the early 20th century most dairy factories were owned by co-operatives . The Dairy Produce Export Control Act of 1923 established the New Zealand Dairy Produce Control Board to control the industry and marketing of all New Zealand dairy produce. This led to the establishment of the New Zealand Dairy Board in 1924, whose main function was to market New Zealand dairy products internationally that were produced by cooperative dairy companies. It was owned by these companies, holding the statutory right to be the “single-desk” seller of manufactured dairy products in New Zealand. Other functions developed by this were research, and the administration of advisory and genetic development services to dairy farmers, which represented the political interest group of dairy farmers (Evans, 2004).

Significant structural changes in the New Zealand dairy industry were developed in two steps. The first one was the deregulation of the economy and agriculture which in general materially affected the dairy industry in the early 1980s. The second one took place in 2001 and was the removal of a board's (single desk) to export . When farmer shareholders in the country's two largest co-operatives, The New Zealand Co-operative Dairy Company Limited and Kiwi Co-operative Dairies Limited, voted for the merger of the existing co-operatives they formed the Global Dairy Company, which later became Fonterra Co-operative Group. This was created to achieve economies of scale and eliminate coordination difficulties presented with the existing structure of the New Zealand dairy industry . Another two smaller dairy co-operatives, Westland and Tatua, chose to remain independent (Evans, 2004).

The New Zealand dairy industry is highly vertically integrated, which means it has a farmer owned co-operative structure. This means the connection of different stages of the supply chain is under just one control . The suppliers mostly have family-owned farms that supply their co-operatively-owned processing factories with milk. The dairy products that come out from the processing factories are then cooperatively marketed and sold to customers (Silva, 2005). New Zealand dairy companies export over 90 percent of their products and the majority of them are commodities, such as milk powder, butter and cheese (Silva, 2005).

Almost all the milk produced by the New Zealand dairy farmers is supplied to their manufacturing dairy companies. There are currently three core companies operating in New Zealand, which are more export oriented companies - Fonterra Co-operative Group Ltd (Fonterra), Westland Co- Board and around 70 smaller companies operating in product or regional market niches (www.maf.govt.nz). New Zealand government regulations allow free movement of supplier- shareholder from and toward Fonterra.

As it has been mentioned before, Fonterra is the largest corporation in New Zealand and one of the world's leading multinational dairy companies . Fonterra has more than 11,000

dairy farmer-shareholders and about 5,000 sharemilkers/farms managers. The number of shares, owned by each individual farmer, is equal to the amount of milk solids supplied to Fonterra each year . Fonterra is the main exporter of dairy products through its joint ventures and brands around the world (Fresno 2006) . The company also notable for its economic expansion into other countries and continents, thus offering its farmer shareholders prospects of greater returns than just from New Zealand based farming, operating 29 manufacturing places in New Zealand and 35 overseas (www.fonterra.com).

In 2003, the dairy exports accounted for 6,307 billions of NZD. In 2005, dairy exports were the largest export earners for New Zealand (excluding tourism) accounting for 17 percent of total exports . In the years 2006 and 2007, New Zealand dairy exports reached a record, on both a volume and value basis. Between June 2007 and March 2008 the New Zealand exports of skim milk powder had dropped considerably while whey exports increased. Exports of WMP remain unchanged, which demonstrate New Zealand's comparative advantage in production and the relatively high price for WMP, compared to alternative dairy products (Lee-Jones, 2008).

The main dairy products exported by New Zealand are milk powder, cheese, butter and casein. Of these four, on a volume basis, milk powder is growing the fastest nearly 998,000 tons in 2007. This shows a growth trend of 4 percent per year over the last six years. On a volume basis, during the same period, cheese exports were up 0.5 percent per year. However, on a value basis, cheese exports have been growing at an average of 8 percent per year due to an increase in world cheese prices (Lee-Jones, 2008).

New Zealand dairy export destinations have changed considerably over the last 20 years. In the past, United States and Europe were the main dairy export destinations. These markets are still important. However, New Zealand is diversifying its exports markets and expanding considerably its dairy product exports to Asia, Australia and the Middle East (Lee-Jones, 2008).

There are three principal dairy associations in New Zealand. The main one is DCANZ (Dairy Companies Association of New Zealand) which was formed in 2003 for the coordination and representation the collective public policy interests of its member dairy companies (Silva, 2005). Its members are Fonterra Co-operative Group Ltd, Tatua Co-operative Dairy Company Ltd, Westland Milk Products, Fonterra Brands (NZ) Ltd, Goodman Fielder Ltd, Open Country Cheese Ltd and Gisborne Milk Co-operative Ltd.

The second one is DairyNZ is the industry good organization that represents NZ dairy farmers, was created in November 2007 through the merger of Dairy InSight and Dexcel. Its purpose is to secure and enhance the profitability, sustainability and competitiveness of New Zealand dairy farming. Its work includes research and development to create practical on-farm tools, leading on-farm adoption of best practice farming, promoting careers in dairying and advocating for policy, legislative and investment decisions by central and regional government which is good for dairy farming (www.dairynz.co.nz).

Finally, the third one is Federated Farmers of New Zealand. This is New Zealand's leading rural sector organization and represents farmers and rural families around the country. The Federation covers a broad spectrum of the rural community. This organization has 7 industry groups who represent the specific interests each industry group of meat and fibre, dairy, goats, rural butchers, beekeepers, high country, and grain and seed farmers (www.fedfarm.org.nz).

All the information presented above conduces to the research problem, which is “To evaluate Chilean dairy farmer’s perceptions of their voice in the governance of the Chilean dairy industry regarding to the New Zealand dairy presence”, developed in chapter 3, “Methodology”. Chapter 2 presents the Literature Review used in this study, providing a frame to contextualise the study within of literature. Chapter 3, the methodology chapter, states four sub objectives linked to the research problem mentioned above. Also defines this thesis as exploratory and qualitative, presents the fieldwork realised in Chile and the data collection methods utilised, this is primary data through semi structured interviews with key actors such as, dairy farmers, agriculture and

association representatives, government agencies' representatives and dairy companies' representatives, all of them located in regions of Chile where the dairy activity is concentrated. Chapter 4 presents in detail the results of the interviews gathered by each one of the four sources of information mentioned above as key actors. Chapter 5, the discussion chapter, collates and discusses in a summary way the findings of the previous chapter. Finally, chapter 6 presents the conclusions reached by this work.

CHAPTER 2: LITERATURE REVIEW

Due to the nature of this study, the theory that will be utilized is directly linked with governance and stakeholder issues. Classical corporate governance theory serves as a general context. However, more specific governance and stakeholder theories will be used to achieve a better understanding of the thesis topic.

2.1 CORPORATE GOVERNANCE THEORIES

The classical literature regarding Corporate Governance approaches this topic from different perspectives, such as economics, finance and accounting perspectives and from an international perspective that is related to the way governance is managed in UK, USA, Germany, Japan and Eastern Europe. In addition, the four main models to approach corporate governance are: The Principal-Agent or Finance Model, The Myopic-Market Model, The Abuse of Executive Power and the Stakeholder Model (Keasy, Thompson, & Wright, 1997). These theories are directly linked to individual business entities in general and do not provide broad enough concepts suitable for this study. Hence, Collaborative governance, enterprise and regulation approach and stakeholder paradox is going to be considered as well, in order to contextualize the findings of this study.

2.1.1 CORPORATE GOVERNANCE DEFINITIONS

First of all, it is appropriate starting by a definition of corporate governance. Several are definitions and approaches of it. The Cadbury Committee Report of 1992 provided an early definition; “Corporate Governance is the system by which companies are directed and controlled”. Then, in 2003, the Higgs Report provided a different focus: “Corporate Governance provides architecture of accountability – the structures and processes to ensure companies are managed in the interests of their owners”. The OECD provides an

international focus of Corporate Governance in the their Report in 1998: “Corporate Governance comprehends that structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members and managers designed to best foster the competitive performance required to achieve the corporation’s primary objective” .

2.1.2 THE MYOPIC-MARKET MODEL

This model as well as the principal–agent model argues that the corporation should serve the shareholders’ interests only. However, it is different in regard to the principal agent model which criticises the Anglo-American model due to its orientation towards short term gains in returns, profit, stock price, and other performance measures induced by market pressures (Letza, Kirkbride, Sun, & Smallman, 2008).

But the model is mainly focused on shareholders’ interests. It argues that corporate governance should provide an environment where shareholders and managers are encouraged to share long term performance goals. Therefore, it is possible to appreciate that this model promotes a long term orientation and consensus between shareholders and managers to achieve long term goals. This model states that welfare is not the same as share maximization due to that some long term expenditures such as capital investment and R&D are undervalued by the market (Keasy et al., 1997).

According to this model, shareholder loyalty and voice should increase while the desire of shareholders to exit should diminish. Policy proposals include the support of “relationship investing” through seeking to lock institutions into long term positions, restrictions on voting rights for short term shareholders, and the empowerment of other groups, such as employees, suppliers, etc. that have long term relationships with the company (Keasy et al., 1997). Despite its shareholder only orientation, this model does

consider the empowerment of other groups such as employees and suppliers that have long term relationship with the company.

This model is suitable for explaining how Fonterra is performing in Chile. Fonterra is acting behalf of its shareholders (New Zealand dairy farmers) and protecting only their interests. The same happens with the others dairy private companies in Chile, such as Nestlé, Danone, Watts, etc. Fonterra and other dairy companies do not consider nor particularly involve Chilean dairy farmers given that they are not its shareholders.

2.1.3 THE STAKEHOLDER MODEL

This model presents the most fundamental challenge to the principal-agent model. The central proposition of this approach is that the objective function of a firm should be defined more widely than the maximization of shareholder welfare only. This model argues that these should recognize the well-being of other groups that have long term association with the firm and therefore an interest in the long term success of the company, providing a more socially efficient approach, which is not only concentrated on the shareholders' wealth (Keasy et al., 1997).

According to Keasy et al (1997), there are two ways to demonstrate the efficiency of the stakeholder model. The first way is when firms are able to develop a reputation for the ethical treatment of suppliers, meaning that customers and employees can build up trusting relationships, supporting profitable investments and mutually beneficial exchanges. The second way is when corporations are viewed as enduring social institutions that have personality, characters and aspirations of their own, along with social public interest. Japan and Germany are examples of successful industrial societies in which extensive stakeholder involvement with the firm is persistent and the corporate goals go beyond only shareholders' profits (Letza et al., 2008).

This stakeholder approach is used to do the data analysis (chapter 4) of this thesis as it represents a wider framework of interested parties within the industry. The results of that chapter are presented in order to the four sub objectives defined and also according to the stakeholders considered, these are dairy farmers (main stakeholders), agriculture and dairy associations' representatives, government agencies representatives and dairy company representatives (this study does not consider customers). Although the study is focused on dairy farmers' perceptions of their voice and governance on the Chilean dairy industry, the opinions of other stakeholders were also collected to obtain a deeper knowledge.

The results show that the stakeholder approach does describe the reality of the Chilean dairy industry, which is highly concentrated to protect and defend the shareholder interests and do not involve the interests of other stakeholders groups such as dairy farmers, dairy associations and community.

2.1.4 COLLABORATIVE GOVERNANCE

According to Ansell and Gash (2008), Collaborative governance can be defined as “A governing arrangement where one or more public agencies directly engage non-state stakeholders in a collective decision making process that is formal, consensus oriented, and deliberative and that aims to make or implement public policy or manage public programs or assets”. This is about an explicit and formal strategy that incorporates stakeholders into a multilateral and consensus oriented decision making process. This concept seems to be suitable for explaining how the Chilean government is involved in the Chilean dairy industry governance, how Chilean dairy farmers are in decision making but specially how the Chilean government could improve its relationship with its dairy farmers in the future. Currently, the Chilean dairy industry does not work under this concept, rather the way to operate is more conduce by the free market and stakeholders are not consulted in the dairy industry decision making process.

The first definition provided by Ansell and Gash (2008), considers six criteria, which are: 1) the forum is initiated by public agencies or institutions, 2) participants in the forum include non state actors, 3) participants engage directly in decision making are not merely “consulted” by public agencies, 4) the forum is formally organized and meets collectively, 5) the forum aims to make decisions by consensus (even if consensus is not achieved in practice), 6) the focus of collaboration is on public policy or public management (Ansell & Gash, 2008). In collaborative governance, stakeholders frequently have an adversarial relationship among them, however the goal is to transform that adversarial relationship into a more cooperative one (Ansell & Gash, 2008).

Collaborative governance is also about collective decision making that includes both public and private actors. Therefore, this collaborative approach to Governance refers to a type of governance in which public and private actors work collectively in different ways, using particular processes, in order to establish laws and rules for the provision of public goods (Ansell & Gash, 2008). This refers to an explicit and also formal strategy that incorporates stakeholders into a multilateral and consensus-oriented decision –making process.

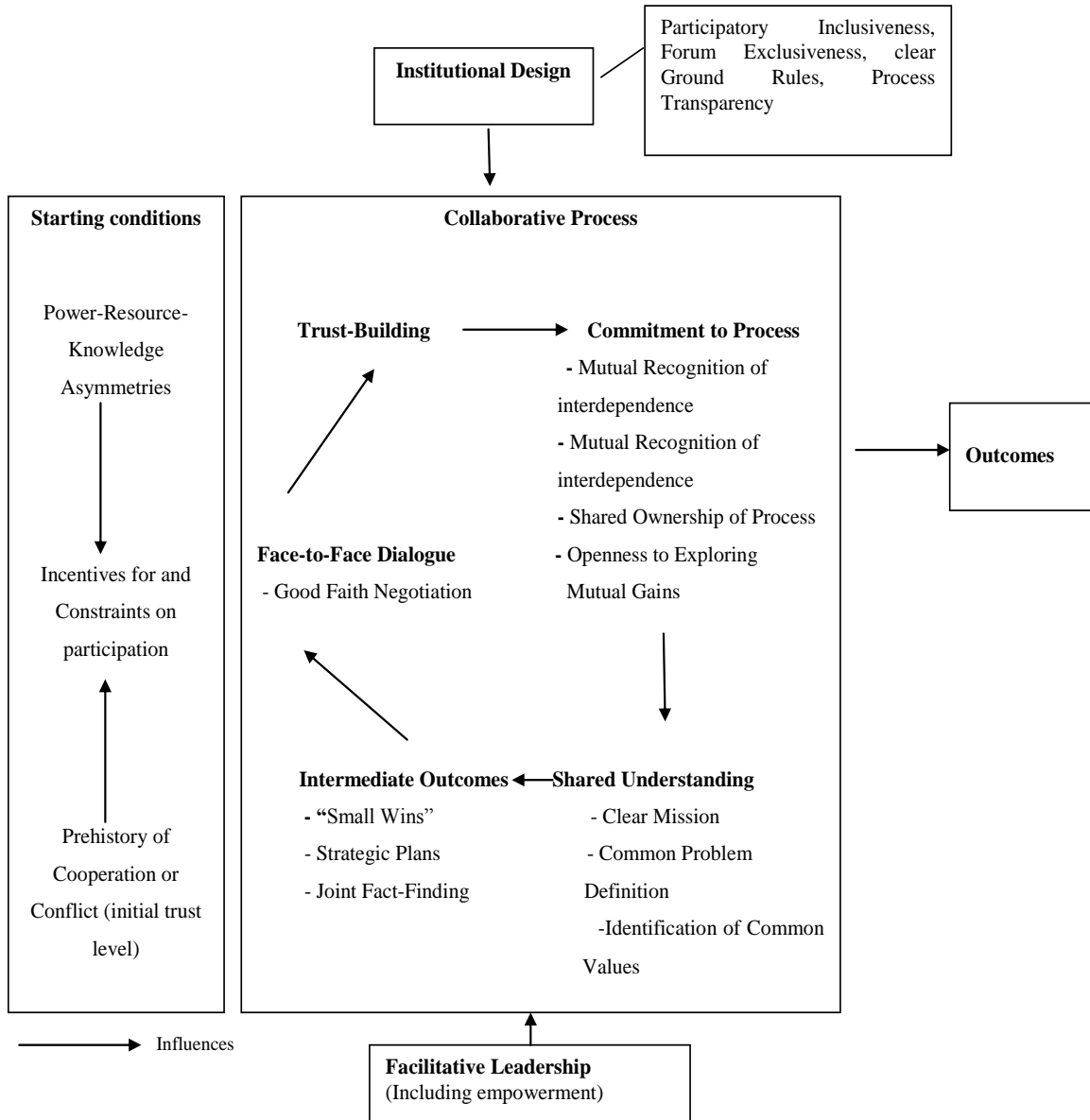
In contrast, in managerialism, public agencies make decisions through a closed decision process or just unilaterally. Sometimes this takes into account the stakeholders’ perspectives. However, this does not include stakeholders in the decision making process (Ansell & Gash, 2008). This seems to suit the Chilean dairy industry situation, where dairy companies make decisions unilaterally and do not take into account the stakeholder opinions in the decision making process. Fonterra is acting behalf its shareholders (New Zealand dairy farmers) and protecting only their interests. The same happens with the others dairy private companies in Chile, such as Nestlé, Danone, Watts, etc. Fonterra and others dairy companies as it is going to be analysed in detail in Chapter 4 do not consider and neither involve Chilean dairy farmers strongly given that they are not its shareholders.

Ansell and Gash (2008) propose a model of Collaborative Governance. The creation of this model was based on the collection of a wide range of 137 case studies from literature. Most of these cases are studies done in specific sectors, so the diversity of cases is quite high. These differ in quality, methodology and intent. The central findings of Ansell and Gash (2008) are represented in the Figure 1. This model has four broad variables. These are: starting conditions, institutional design, leadership, and collaborative process. Each of those broad variables can be disaggregated into more variables. Collaborative process variables are the core of this process. Starting condition set the basic level of trust, conflict, and social capital that become resources or liabilities during collaboration. Institutional design sets the basic ground rules under which collaboration takes place. And the facilitate leadership provides essential mediation and facilitation for the collaborative process. This collaborative process is highly iterative, for that reason the authors present it as a cycle.

This model provides a useful tool to this study. Through this model it is possible to propose the development and design of a model of collaborative governance for the Chilean dairy industry, where many stakeholders are able to be part of the decision making processes and that way be more integrated into the Chilean dairy industry. This must be done and initiated by government agencies, be transparent and participative, maybe regulated by a law that states all the necessary processes to achieve consensus and participation.

The six criteria provided by Ansell and Gash (2008) is a useful tool that must be considered to the construct and design of the model because involves factors that contribute to achieve a final contribution that might turn in laws, rules and public policies that encourage the consensus between public and private actors of the Chilean dairy industry obtaining finally balance in the benefits for all stakeholders involved.

Figure 1: A Model of Collaborative Governance



Source: Ansell, C., & Gash, A. (2008). Collaborative Governance in theory and practice.

2.2 STAKEHOLDER THEORY

There are several definitions of Stakeholder. However each one of these stands for the same principle, which is that the corporations should pay attention to the needs, interest and influences of those affected by their operations and policies (Buchholz & Rosenthal, 2005). Between typical definitions is the Carroll definition, who defines stakeholder as “any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization”. On the other hand, Clarkson states stakeholders as “those persons or interests that have a stake, something to gain or lose as a result of its (the corporation’s) activities (Buchholz & Rosenthal, 2005). Typical stakeholders who are considered are consumers, suppliers, governments, competitors, communities, employees and stockholders (Buchholz & Rosenthal, 2005).

Freeman (1984) provides a definition that has remained unequalled in its comprehensiveness and depth, this is “A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives”.

According to Phillips (1997), the Freeman’s (1984) stakeholder concept remains being the most popular stakeholder model. The introduction and elaboration period of Stakeholder theory development is marked by the publication of Freeman’s Strategic Management: A Stakeholder Approach (1984), which states the definition given in the point 2.2.

Reichers and Schneider (1990) suggest a “life cycle of constructs” to explain the development of stakeholder theory, these are: introduction and elaboration, evaluation and augmentation and consolidation and accommodation. These constructs are now explained.

Introduction and elaboration, defines stakeholders as “those groups without whose support the organization that would cease to exist”, and this involves shareowners, employees, customers, suppliers, lenders and society. The initial usage of the stakeholder concept was focused mainly in economic circles on the term “stockholder”. This leads to the idea that the goal of a company is to maximize shareowner wealth (Philips, 1997).

The Evaluation and augmentation, point of the evolution of stakeholder theory by a combination of implementation suggestions and critical analysis and the attention to conceptual detail and rigor. This is marked as a period subsequent to Freeman (1984). Among the literature discussed in this period models of corporate governance that include the traditional model, where owner is the central focus of the firm’s operations and they are the only group that have members on the board and the stakeholder model, in which multitudinous groups are represented. Some other very important aspects in the development of stakeholder theory during this time that compared the stakeholder model to more traditional economic theories (Philips, 1997).

2.2.1 DONALDSON AND PRESTON’S TAXONOMY OF STAKEHOLDER

Research into stakeholder theory has developed along three main lines: the descriptive, the normative and the instrumental points of view. A fourth dimension, added by Freeman (1984) is the metaphorical use of stakeholders (Fassin, 2009). Descriptive stakeholder research, offers a model of the corporation, this includes: the nature of the firm, the way managers think about managing, how board members think about the interest of corporate constituencies and how some corporations are actually managed (Philips, 1997). Furthermore, this kind of approach includes how stakeholders feel, think and act about the object firm.

Normative stakeholder research: Stakeholders are identified by their interests and all stakeholder interests are considered to be intrinsically valuable. This theory indicates how

actors should operate. According to Rowley : “Normative theory should generate an understanding about how those behaviours can be realized (Radin, 1999). In other words, our efforts must shift from addressing “why managers should satisfy stakeholders (apart from shareholders’ interests)” to “how managers should satisfy these stakeholders such that the prescribed values found in normative research are produced. It is enough to provide managers and expect that they will do so” (Radin, 1999).

Instrumental stakeholder research approach offers a framework for investigating the relationship (connections or lack of connection) between conventional firm performance and the practice of stakeholder management (Philips, 1997).

2.2.2 STAKEHOLDER PARADOX

During the last years some authors have discussed the implications that corporate managers’ fiduciary duties owed to shareholders have on other stakeholders. Since Freedman’s definition of stakeholder (1984) cited before. Later, authors such as Freeman himself (Evan and Freeman, 1983; Freeman & Gilbert, 1988; Donaldson and Preston, 1995), moved beyond this position by taking a more radical position which states that the interest of stakeholders have intrinsic worth irrespectively of whether these go ahead of the interest of shareholder (Marens & Wicks, 1999). In this context, the success of a company is not only an end in itself, because success should also be seen as a medium for advancing the interest of stakeholders other than just shareholders.

The Stakeholders paradox comes from the situation when managers, who would pursue a multi-fiduciary stakeholder orientation for their firms, face resistance from those who think that a strategic approach is the only legitimate orientation for business to adopt. Especially when given the legal constitution and economic mission of the modern corporation. According to Goodpaster (1991), there is an ethical problem whichever approach management takes, which he calls the Stakeholder Paradox, defined as: “It

seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones”. The argument that support the paradox is focused on management’s fiduciary (a corporation or association holding assets for another party, making decisions regarding financial matters on behalf of the other party) duty to the stockholder, mainly the duty to keep a profit –maximizing and a concern about the “impartiality” of the multi-fiduciary approach simply cuts management loose from certain well-defined bonds of stockholder accountability. Under this approach, the term impartiality is thought to be a betrayal of trust (Goodpaster, 1991).

The argument that support the paradox is focused on management’s fiduciary duty to the stockholder, mainly the duty to keep a profit –maximizing and a concern about the “impartiality” of the multi-fiduciary approach simply cuts management loose from certain well-defined bonds of stockholder accountability. Under this approach, the term impartiality is thought to be a betrayal of trust (Goodpaster, 1991).

According to Goodpaster (1991), the relationship between management and the stockholders of a corporation is different to the relationship between management and other stakeholders such as employees, suppliers, customers, etc. However, this does not mean that stakeholders lack a morally significant relationship to management, as the strategic approach does. This just means that the relationship in question is different from a fiduciary relationship. Managers must consider seriously its extra legal obligations about not injure, lie to or cheat the stakeholders and does not matter whether those do represent stockholders’ interests (Goodpaster, 1991).

According to Goodpaster (1991), it seems to be obvious that corporations have a mainly economic mission. Also, they have a fiduciary obligation which is owed to investors and a general obligation that must comply with the law. In addition, it is possible that these corporations abuse their economic power and disregard the corporate stewardship.

Goodpaster (1991) concludes that the Stakeholder Paradox is likely to be avoided by a more moral thoughtful understanding about the nature of moral obligations and the limits that this imposes on the principal-agent relationship. When it is possible to understand the existence of ethical values shared by a corporation and its stockholders (a space that go beyond the strategic self-interest but stops short of impartiality) it is then that the difficult work of filling that space can be done.

According to Boatright (1994), for Goodpaster the heart of the stakeholder paradox is the difference that exists between fiduciary and non-fiduciary duties. For Boatright (1994), the Goodpaster solution to the stakeholder paradox does not work, based on the assumption that shareholders cannot expect managers to act in ways that are inconsistent with the ethical standard of the community, at least that managers are not agents of the shareholders. Nevertheless, if public policy is used as the basis of fiduciary duties it is possible to get a stakeholder paradox solution.

The management-shareholder relationship has fiduciary obligations, but this does not mean that there is an existence of other non fiduciary obligations. Boatright (1994) believes that there is a distinction between the decisions of management which bear on their fiduciary duties and those that do not represents an alternative solution to the stakeholder paradox. The fiduciary duties of officers and directors are limited to the general matters of organization and strategy, so the conduction of business, where the interest of other stakeholders can be taken into account, might not suit the shareholder interests (Boatright, 1994).

Boatright (1994) argues that both views, the management has a fiduciary duty to shareholders. And the Goodpaster view rejects the multi-fiduciary stakeholder approach on the basis that the shareholder-management relation is “ethically different” and that the relationship management is inadequate. He proposes an alternative solution to the stakeholder paradox concluding that there is a third position about the relation between shareholders and management. For these three positions, the role that fiduciary duties

play in each one is important, but different, and each involves a different ethical basis in respect to the management fiduciary obligations.

The accountability of managers to shareholders is restricted to specific matters that are related to fiduciary duties. According to Boatright (1994), public policy should be considered to decide whether shareholders should continue to occupy the status that they do. Market forces and government regulations, and shareholder as well, have been controlled by the management power ensuring that corporate activity is in general beneficial (Boatright, 1994).

Boatright (1994), concludes that there is nothing special about shareholders except for the useful role that they play in corporate governance. The current debate about the shareholder role indicates the delicate balance among shareholder power, market forces and government regulation which has not succeed in preventing management abuses or achieving maximum efficiency. The answer has yet to be determined; maybe this lies in increasing shareholder power or changing the competition condition or maybe in imposing more government regulations or even in a combination. This conclusion states that the current debate about the shareholders role is conducted not in the basis of ownership or of an agency relation or of contract, it's in terms of public policy.

Goodpaster and Holloran (1994), criticises Boatright's argument because it states that the basis of an obligation is not strictly contract, agency, or property rights. This means that the basis of an obligation is not special in any deep sense, any sense that would allow it moral power against the universal solvent of "public policy". This approach reduces moral tensions to the statement the greatest good. Boatright (1994) thinks that finding a legal basis for fiduciary duties is owed by the management of the companies and the shareholders is something too complicated due to the technicalities of agency, law and contract. In contrast, Goodpaster and Holloran (1994) believe that this matter is more straightforward. However, Goodpaster and Holloran (1994) agree with Boatright (1994) about the fact that an express or implied contract cannot be the basis of the fiduciary

duties of management because shareholders are the main beneficiary of fiduciary duties. However this does not mean that these duties are owed to shareholder or these duties are imposed on management with the intention to benefit shareholders.

According to Goodpaster and Holloran (1994), the duties of directors and officers are (1) the objective and conduct of the corporation and (2) to accept the official responsibilities of their elections and appointments

Goodpaster and Holloran (1994) argue that there are five avenues of the many of moral philosophy that are relevant to the stakeholder paradox, which are: (1) Interest based-which departs from a general commitment to further a set of objectives or to bring about a certain positive state of affairs in the world. (2) Liberty-based, which involves obligations of respect for others, freedom to follow goals, despite the existence of any predominance of interest that might prevail to do otherwise. (3) Fairness-based, this focuses on the distribution of freedom and wellbeing in society, and looks for the achievement of equal opportunity. It also is based on wealth differences that improve the situation of the less advantaged. (4) Relationship-based, which comes from relationship linked to certain places inside families or social groups, such as parent, child, sibling, spouse, etc. (5) Community-based, this comes from certain duties that we have as membership of human and biotic communities, such as provision for children and the weak, providing for defence, paying taxes and environmental protection.

Goodpaster and Holloran (1994) believe that the grounding of the fiduciary duty lies in consideration of liberty (for the corporation and its shareholders), fairness (in respecting the corporation as having political rights), relationship (in the management's acceptance of its role of furthering the company objective) and community (the leadership role of the corporation as a part of the community).

Finally, Goodpaster and Holloran (1994) conclude that a practical paradox, not a theoretical one, remains present because it may appear that management does and does

not have primary (non-instrumental) duties to stakeholders. Nevertheless, this appearance seems to mislead because it is also understood that non-fiduciary duties are owed to some fiduciary ones more to others. Directors and officers must see themselves as shareholders, trusted servants, and at the same time as members of a wider community. A community that is inhabited by the corporation, its shareholders, and many stakeholders groups. These authors believe that the stakeholder paradox is best managed by directors and officers who have enough experience in both private and public life to understand it and furthermore wise enough to manage it. Under a moral and practical point of view it is better to keep this stakeholder paradox alive than to eliminate it by either reduction (Goodpaster & Holloran, 1994).

According to Marens & Wincks (1999), Legal relationships that emerge under a common law system are a result of incremental modifications of often vague and overlapping doctrines that must be selectively applied to solve practical business problems or settling different disputes. Consequently, the legal doctrines that define the relationships exist between top corporate management and the different groups holding a stake in the company's performance will differ from one stakeholder group to another stakeholder group.

Marens and Wicks (1999), think that the use of purposes such as higher productivity, long- term earning horizons, or beneficial public relations, which justify generosity acts, constrain a stakeholder approach to a very timid instrumental use of the concept.

Marens and Wicks (1999) criticise stakeholder paradox, arguing that researchers should go beyond it. Meeting fiduciary duties to shareholders does not mean that managers must side with shareholders and against stakeholders. Clearly, corporations have the legal autonomy to act proactively and also advance the interest of stakeholders at the same time. Corporations and managers have significant influence in which to define core values and philosophy, and these kinds of responsibilities want to assume with respect a wide range of stakeholders. Also, managers are free about making decisions of how to use the corporate resource and what investments to make. Obviously, managers face

tough decisions about how to distribute resources and which priorities they should establish among stakeholders claims. For Marens and Wicks (1999), these kinds of analyses and decisions are more moral choices which can provide managers a guide without fear of violating their fiduciary duties to shareholders. And they also would not have to choose between shareholders and stakeholders.

In Addition Marens and Wicks (1999) criticise that stakeholder theories have failed to offer managers concrete direction about how to allocate resources, make decisions, and sort out the legitimacy and importance of various stakeholder claims. They argue that without this kind of direction theorists are free to suppose that a considerable conflict between stakeholders and shareholders exists. They also argue that the emergence of the stakeholder paradox was caused by the generality ambiguity of stakeholder theory. They suggest that the development of more managerially directive forms of stakeholder theory would improve its managerial relevance which also would provide further support for their claims about stakeholder paradox.

Furthermore, Marens and Wicks (1999) believe that there is an important challenge in education. They are convinced about the following statements:

1. "The stakeholder paradox is largely a false, ideologically created and avoidable problem since managers are not compelled to choose between law and stakeholder ethics".
2. "Managers have considerable freedom to make decisions regarding firm operations and investments and are not legally bound to reach decisions purely on the basis of their impact on shareholders".
3. "Stakeholder theory needs to be antithesis of Friedman's shareholder theory but can serve as more compelling, inclusive, and realistic account of how business organizations can and should operate".
4. Marens & Wicks (1999), argue that these educational efforts and modest legal reforms could help to make the scenery outlook more receptive to stakeholder formulations of ethical business practice.

The Stakeholder Paradox theory represents a real situation that occurs in general in any industry around the world. This situation, as have been describe above, is given by the strategic management and the search for profit maximization as the only purpose of a company and the opposite point of view that states the success of a company in terms of profits is not the only objective because also could be seen a medium for advancing the interest of the stakeholders being benefit for all of them. This constitutes an ethical issue since clearly the stakeholders interests in general do not suit the shareholder ones and consequently are not do not guaranty the profit maximisation but might became even more profitable in the future in terms of investments obtaining more prestige, recognition, customers' loyalty to the brand, etc.

The stakeholder paradox is based on management fiduciary duties to the shareholders of a company, the duty conduct the business and protection of the interest of shareholders and the strategic orientation to maximise the profits which make sense because seems to be logic and obvious and the other point of view that arguments corporate decisions must be oriented by ethical values that go beyond strategic stakeholder consideration and benefit to all. Boatright (1994), presents an interesting opinion when he states that this paradox might be solve by the interaction of government regulations, market forces and shareholders power, because the first two factors should contribute to balance the abuse of shareholder power, especially government regulations through the creation of public policies what encourage the participation and protect the interest of stakeholder in this case Chilean dairy farmers.

Maren and Wicks (1999) present a good critique to the stakeholder paradox arguing that this has failed offering a solution about how to make decisions and give value and importance the demands of stakeholders. However, these authors believe that meeting fiduciary duties to shareholders does not mean that managers must support shareholders and not stakeholders which seems at least questionable because that is difficult to guaranty given that at least in this case of study same as many others around the world, managers are acting and performing just side to shareholders not taking into account

stakeholders enough in their demands. Also they think that managers are free to make decisions about the use of corporate resources, which is as well debatable due to stockholders have control and influence in the managers' decisions and finally those ones are employees too.

Finally, this paradox represents clearly the real situation that dairy farmers face in Chile, where dairy companies such as Soprole (Fonterra) have managers that respond just to the fiduciary duties to shareholders and consequently are acting to just protect their interest and not really involving other stakeholders. On the other hand, the management of the same company in New Zealand is quite different, because dairy farmers are shareholders and stakeholders at the same time, but that is directly linked to the kind of company because in Chile Soprole is private and in New Zealand is a cooperative company.

2.2.2.1 STAKEHOLDERS ANALYSIS AND SYNTHESIS

According to Goodpaster (1991), this is an approach that answer business ethics questions as: What is ethically responsible management? And how can a corporation given its economic mission, be managed with appropriate attention to ethical concerns? This approach is called Stakeholder analysis. This is defined as management that includes careful attention not only to stockholders but to stakeholders generally in the decision-making process. Goodpaster (1991) believes that this involves a significant “kernel of truth”, however this can be misleading as well.

Goodpaster (1991), argues that the decision making process of an individual or a company can be seen as a sequence of six steps, the author calls this sequence PASCAL, in the name of a French philosopher-mathematician called Blaise Pascal (1623-62), who remarked in reference to ethical decision making “ the heart has reasons the reasons knows not of”. “(1) PERCEPTION: or fact –gathering about the options available and their short-and-long term implications; (2) ANALYSIS of these implications with

specific attention to affected parties and to the decision –makers goals, objectives, values, responsibilities, etc. (3) **SYNTHESIS** of the structured information according to whatever fundamental priorities obtain in the mindset of the decision-maker; (4) **CHOICE** among the available options based on the synthesis; (5) **ACTION** or implementation of the chosen option through a series of specific requests to specific individuals or groups, resource allocation, incentives, controls, and feedback; (6) **LEARNING** from the outcome of the decision, resulting in either reinforcement or modification (for future decisions) of the way in which the above steps have been taken .

Stakeholder analysis just involves the first two steps, **PERCEPTION** and **ANALYSIS**. Stakeholder analysis is only the initial segment of decision making process. This part of the decision making process does not consider the ethical character of an individual or institution, it's morally neutral. In contrast, stakeholder synthesis goes further into the sequence of decision making steps that are presented above. According to Goodpaster (1991), stakeholder synthesis offers a channel by which it is possible to move from stakeholder identification to practical response or resolution.

2.2.2.2 STRATEGIC STAKEHOLDER SYNTHESIS

It is not always the case that stakeholder analysis and the decision making process is done with ethical considerations. There might be not ethical concerns about stakeholders to motivate and guide an ethical analysis, as much as concerns about potential impediments to achieve strategic objectives. According to Goodpaster (1991), the synthesis, choice, and action phases of the decision making process might ignore positive and negative effects on relatively powerless stakeholders.

In this kind of synthesis, stakeholders are used only instrumentally, they only take into account the decision making process as external environmental forces, and potential sources of either good, will or retaliation. It is important to underline that managers who

adopt this approach are not necessarily personally indifferent to the stakeholders. The point here is that managers have a role that involves the fiduciary duties relationship which binds them as agents to principals, and their basic outlook can put other stakeholder concerns behind stockholder ones. However, market and legal forces help to secure the interests of those whom strategic considerations that might harm (K. E. Goodpaster, 1991).

Marens and Wincks, (1999), argue that each type of stakeholders groups have a different legal, economic, and social relationship to a particular business, and a general stakeholder approach does not explain how managers should get a balance between the different kinds of dependencies. Especially, considering the legal reality, in which managers have a fiduciary duty to shareholders, which is not generally granted to any other group.

It is possible to argue the minority stockholders of private companies deserve more consideration as stakeholders than their public counterparts. For minority shareholders it's harder to exit the firm if they are unhappy about the management because they are more dependent upon a right to have their interest considered by management (Marens & Wicks, 1999).

Marens & Wicks (1999), argue, in theoretically way, that fiduciary duties might be imposed on corporations that are benefited from various investments decisions make by stakeholders, such as suppliers who install new machinery to meet the company's requirements; retailers who invest in advertising, training, and store modifications to accommodate their products; communities who build roads, establish educational programs, and make various sorts of civic improvements; and customers who pay with for the products and services.

2.2.2.3 MULTI FIDUCIARY STAKEHOLDER SYNTHESIS

This view is contrary to the strategic one, because this considers that all stakeholder groups deserve the same care to, employees, customers, and local communities as well as the economic interests of stockholders. This can involve trading off of the economic advantages of one group against those of another. This approach also views the stakeholder apart from their instrumental, economic, or legal influence (Goodpaster, 1991). Therefore, multi-fiduciary stakeholder analysis is absolutely incompatible with the convictions about the special fiduciary duties owed by management to stakeholders (Goodpaster, 1991).

2.2.2.4 NEW STAKEHOLDER SYNTHESIS

According to Goodpaster (1991), the fact to take business ethics seriously does not mean that there are additional fiduciary relationships to third parties, apart from shareholders. This means that there are morally important non fiduciary obligations to third parties that are surrounded by any fiduciary relationship. On this point Boatright (1994), agrees with Goodpaster. However, Boatright (1994) believes that this is not totally accurate. He believes that any of the fiduciary duties that are owed by officers and directors to the corporation as an entity, with interests of its own can conflict with those of shareholders. In addition, companies have fiduciary duties to other constituencies, such as creditors and employees.(Goodpaster, 1991)

Goodpaster (1991) argues that a conscientious company can maintain its private economic mission but always in the context of fundamental moral obligations which are owed to any member of society or others affected by the actions of the members. However this does not mean that a company is a public institution.

It is possible to observe most of the theories presented such as myopic market model, stakeholder model and stakeholder model are mainly focused on the debate about the relevance and involvement that stakeholders should have in the decision making of corporations. This represents two opposite position; the first, that managers must make decisions only focused on strategic management to obtain the maximization of profits, and the second, that all stakeholders must have the same involvement in terms of consideration of their interests, in the decision making process of corporations. In addition, there is another position called new stakeholder synthesis, which in some ways balances the debate. This is about corporation management under ethics regulations, acting without damage to any group and in contrast looking to give the same importance to all stakeholder groups but at the same time maintaining the search for profit maximization. This seems very idealistic, being hard to put into practice in the real world, where decision making oriented by strategic management to look for increased profits may well not be compatible with ethics codes.

Collaborative governance is presented as a good alternative to encourage the participation of all groups of stakeholders to a collaborative decision making process to make and create public policies in benefit to all. This approach could be a useful tool to analyse how to improve the involvement of Chilean dairy farmers in the Chilean dairy industry and finally design a model that suit the Chilean dairy industry requirements, being also a system that promotes the transparency and participation the all stakeholders.

CHAPTER 3: METHODOLOGY

3.1 RESEARCH OBJECTIVES

Given the information presented in Chapter 1, the main objective of this study is “to evaluate the Chilean dairy farmer’s perceptions of their voice in the governance of the Chilean dairy industry regarding the New Zealand dairy presence”.

From the literature review it is clear that both governance and stakeholder theories can be used to consider this question. To explore this it is necessary to investigate how various participants in the Chilean dairy industry see themselves involved in governance or whether they are simply dependent stakeholders. From this comes the question of which model of governance, corporate stakeholder and social responsibility, best suit the future development of the Chilean dairy industry from the participant perspectives. Therefore, to better understand this core question, the following objectives will be investigated:

1. To develop an understanding of the Chilean dairy farmers about Fonterra (Soprole in Chile) and other New Zealand dairy investment activities in Chile.
2. To identify the stakeholder roles of Chilean dairy farmers in the Chilean dairy industry, especially with regard to Soprole.
3. To identify what the farmers believe about their effective voice and their control over future directions of the dairy industry in Chile.
4. To develop an understanding of the effective governance roles of each stakeholder group in the Chilean dairy industry.

3.2 METHODOLOGY

To date, there are few studies that analyse the Chilean and New Zealand dairy sector. These are mainly focused on comparison between the dairy sectors of both countries. However, none of these investigates the perception of Chilean dairy farmers about the New Zealand influence on their local industry and their voice in the governance of the Chilean dairy industry. Therefore, this study is exploratory and uses a qualitative approach, given that it is necessary obtaining information that is not previously known. Also quantitative methods do not suit it due to the limitation of closed questions. Mack, Woodson, MacQueen, Guest and Namey (2005), show an interesting comparison between quantitative and qualitative methods that support this choice. The study argues that qualitative method seeks to explore the phenomena (exploratory research), use semi-structured methods such as in-depth interview. It is utilized to describe and explain variations and relationships, describing individual experiences and group norms, using open questions that allow the flow of information, and the data collected is textual. In contrast, quantitative research method seeks to confirm hypotheses about phenomena (not suitable for this case of exploratory study) and it uses structured methods such as questionnaires, surveys, and structured observation. Furthermore, it uses quantify variations, predicts causal relationships and characteristics of a population, and uses closed-ended questions to obtain numerical data.

Qualitative research attempts to interpret how things happen in their natural scenario, collecting the phenomena meaning that people bring to the researches. (Denzin & Lincoln, 2005). In addition, this kind of study facilitates the analysis of issues in-depth detail and producing much rich information (Patton, 2002). According to Corbin and Strauss (1990), qualitative methods are utilised to explore areas with little knowledge, such as the case of corporate governance of Chilean dairy farmers. This kind of approach studies social reality and allows the understanding of how the world works.

The main difference between both methodologies, qualitative and quantitative, is the flexibility. Qualitative research methods allow greater spontaneity and adaptation of the interaction between the researcher and the study participant. Using open-ended questions allowing participants to respond freely in their own words, and these responses tend to be more complex rather than simply “yes” or “no” answer. Open ended questions have the ability to attract answers that are: meaningful and culturally salient from the respondents, unanticipated from the researcher (an advantage for exploratory study), naturally rich and explanatory. In addition, researchers have the opportunity to respond instantly to what participants say by elaborating subsequent questions to the information the participant has provided. However, both qualitative and quantitative methods have a range of flexibility and that is not an indication of how scientifically rigorous a method is. Rather, the degree of flexibility needed is given by the kind of understanding of the problem that is being pursued (Mack et al., 2005).

Semi-structured interviews, with both closed and open ended questions were utilized, as this allowed the researcher to start with a few specific questions and then develop the interview according to the responses gained. The interviews were carried out with people who are directly related to the dairy sector and have clear point of views. More structured interviews can be easily undertaken but may not elicit an elaborate point of view. The interviews were conducted in Spanish, as this is the language of Chile. The dialect spoken by Chilean dairy farmers is hard to understand, unless the researcher belongs to same country and/or culture. Chilean dairy farmers, as well as other farmers from other countries, have special ways of expressing themselves often utilising special terms. However, as the researcher is a native Chilean Spanish speaker, it was possible to understand the Chilean dairy farmers’ way of express.

3.2.1 FIELDWORK AND DATA COLLECTION METHODS

The data used in this research is a combination of both primary and secondary data. While there is some quantitative data, most is qualitative. This data has only been collected during the period of this study, not before or after. The main qualitative data was obtained by interviews carried out in Chile between June 16th and August 14th of 2008. This primary data was collected through semi structured interviews of people directly linked to the dairy sector. The interviewed ones were dairy farmers from the five regions of Chile which are considered to have the highest dairy production (Region Metropolitana, VIII Region (Region del Bio-Bio), IX Region (Region de la Araucanía), X Region (Region de los Lagos and XIV Region (Region de los Rios)) (see Appendixes 1 and 2), representatives of dairy associations, representatives of government agencies and representatives of dairy processing companies.

There is no a formal classification system of dairy farmers in Chile. However, a basic classification, suggested by the Ministry of Agriculture of Chile, was used to stratify dairy farmers by the number of cows per farm for dairy production. There is another classification utilized by the dairy companies which is based by the number of litres of milk supplied by dairy farmers per year. However, that is sorted in 11 groups which are too many for the purpose of this study. Therefore, Chilean dairy farmers respondents or participants were classified by small, medium and large categories (see figure 2) to obtain a simple but useful stratification of them.

Figure 2: Classification of Chilean dairy farmers by number of cows

Type of dairy farmer	Number of cows
Small	0-30
Medium	31-200
Large	from 200

Source: Ministry of Agriculture of Chile.

The original intention was to use a randomly selected sample. However, it was not possible to get a list of all the dairy farmers existent in Chile. Furthermore there is not statistical information available relating to Chilean dairy farmers, although some information is being processed it will be presented in a future dairy census. For these reasons, the only possible option was to utilize convenience sampling. Also stratified purposive sampling was utilized to obtain data from the three groups of dairy farmers (small, medium and large). This approach allows statistical generalization to the larger population (Liamputtong & Ezzy, 2005). Convenience sampling is a kind of non-probability sampling where readily available individuals and participants are used (Cooper & Schindler, 2006). While this technique is less rigorous, due to the lack of precision of the data, it is still a useful tool. And this was the only way to get a distribution of data given the lack of contact information and the number of dairy farmers in the population. Limitations of time and budget added further constraints against other approaches.

The first step involved seeking assistance from the Ministry of Agriculture of Chile, an institution where the researcher is employed. First, the researcher contacted SEREMIs (Secretarías Regionales Ministeriales- Regional Ministry Secretaries) to obtain the contact information of dairy farmers. Once the researcher obtained that information, she started to contact respondents by telephone and e-mail and the organised travel to the regions. That the researcher is employed by the Ministry of Agriculture of Chile did not impact the study as the study was clearly identified as being done by the researcher as a student and not an employee of the ministry. The purpose was clearly to try to understand the real situation that dairy farmers face regards to their voice and governance in the Chilean dairy industry and not how the Ministry was involved or impacting the farmers or other industry players.

The intention was to do 3 interviews (1 small farmer, 1 medium farmer and 1 large farmer) in each region where the milk production is not too high, these are: Región Metropolitana, VIII Región and IX Región. Then undertake 15 interviews (5 small

farmers, 5 medium farmers and 5 large farmers) in regions where the milk production is the highest in the country (about 70%). These regions are the X Región and the XIV Región.

A total of 37 interviews were done. 24 with dairy farmers, 4 with government agencies' representatives, 6 with agriculture and dairy associations' representatives, and 3 with dairy processing companies' representatives.

In the Region Metropolitana a total of 6 interviews were carried out, 3 of them with dairy farmers (1 small, 1 medium and 1 large), 1 with a government agency representative, 1 with a dairy association representative and 1 with a dairy processing company representative. In the VIII Region another four interviews were done, 3 with dairy farmers (1 small, 1 medium and 1 large) and 1 with a dairy association representative. Other four interviews were done in the IX region, 3 with dairy farmers (1 small, 1 medium and 1 large) and 1 with a dairy association representative (this person was interview as dairy farmer and dairy association representative as well). In the X region, 8 interviews with dairy farmers were done (4 small, 3 medium and 1 large), 1 with a government agency representative, 2 with Agriculture and dairy association representatives and 2 with dairy processing companies' representatives. Finally in the XIV Region, 7 interviews with dairy farmers were carried out (1 small, 2 medium and 4 large), 2 with government agencies representatives and 1 with an agriculture association representative. The distribution of the number of dairy farmers' interviews done in each region is according to the level of milk production of those (see figures 3 and 4).

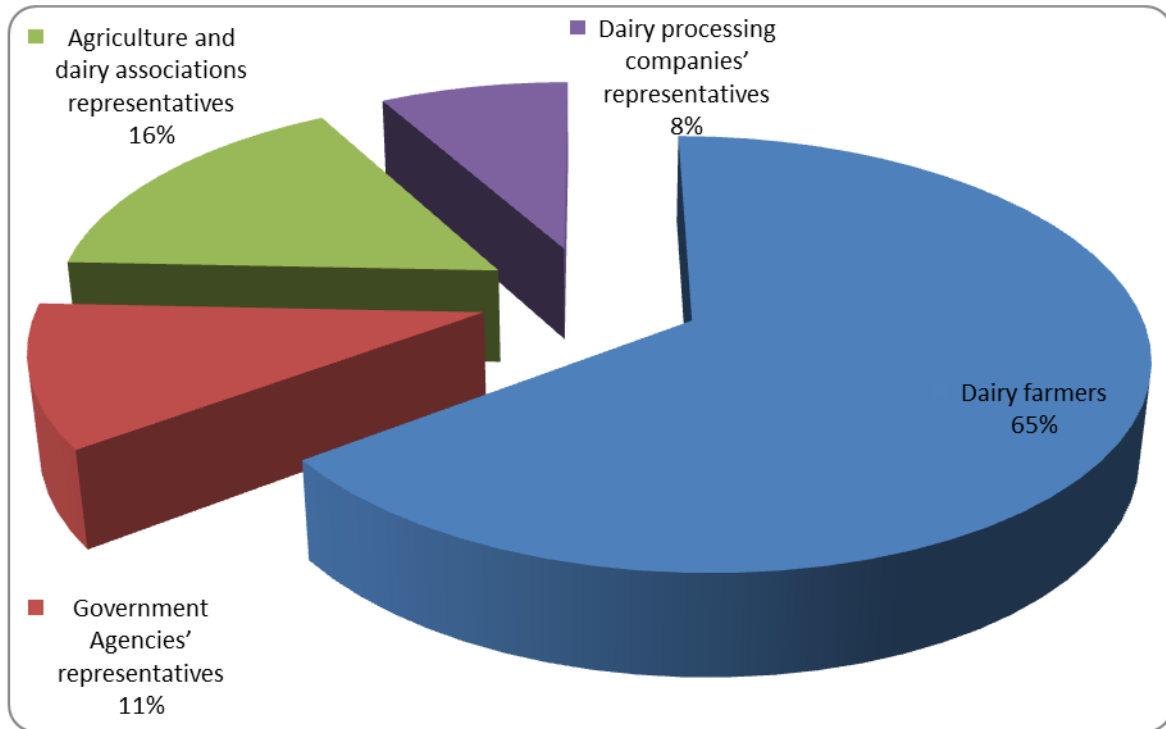
The transcriptions of the interviews were done in New Zealand. It was a long process due to the lasting of each interview, each at least three to four hours for one. After that, the data analysis was done utilizing NVIVO software, this is a friendly program that allows a flexible analysis of the data, a free creation of codes according with the research requirements and provide many tools to arrange the information. The coding of the information was elaborated, in first place, according to the objectives and common

answers founded in the interviews, the sizes of dairy farmers (small, medium and large) and region to which they belong. For the first objective, 14 different codings were done, for the second objective 13 categories of coding were elaborated, for the third one 10 codings were realised and for the fourth and last objective 20 coding categories were done.

Figure 3: Distribution of the Interviews by Region of Chile and stakeholders considered in the study.

	VIII Región	IX Región	X Región	XIV Región	Región Metropolitana	Total	%
Dairy farmers	3	3	8	7	3	24	65%
Government Agencies' representatives			1	2	1	4	11%
Agriculture and dairy associations representatives	1	1	2	1	1	6	16%
Dairy processing companies' representatives			2		1	3	8%
Total	4	4	13	10	6	37	
%	11%	11%	35%	27%	16%		

Figure 4: Distribution of the interviews by stakeholders considered in the study.



Secondary qualitative and quantitative data were gathered in both Chile and New Zealand, during the period of this research. First, data collected from official publications were utilized to obtain mainly statistic information. One useful source of data was the databases of the Office of Agrarian Policy and Studies of Chile (ODEPA). Also, annual reports of Soprole in Chile and Fonterra in New Zealand were used. In addition, a wide range of journals' articles about dairy industry, corporate governance and stakeholders' theories were used to contextualize the dairy industry and stakeholder and governance theories.

CHAPTER 4: RESULTS

In this chapter the results presented are of 37 interviews done with Chilean dairy farmers, dairy processing companies' representatives, dairy association representatives and government agencies representatives.. These interviews were done between June 15th to August 14th of 2008 in 5 regions of the central and south zone of Chile where Chilean dairy activity is concentrated. The results obtained in this study are presented in order of the objectives set out in chapter 3 and grouped by the sources of information, farmers, dairy processing companies, agriculture and dairy associations and government agencies. Despite the focus of this study being Chilean dairy farmers' perceptions, the opinions of other stakeholders mentioned were also considered. Their opinions and points of view might provide interesting information and also help to understand the real situation giving a wider understanding of the topic.

4.1 OBJECTIVE 1:

“To develop an understanding of the Chilean dairy farmers about Fonterra (Soprole in Chile) and other New Zealand dairy investment activities in Chile”

This objective is focused on the Chilean dairy farmers' opinions. However, opinions from agriculture, dairy associations' and government representatives were also collected that and are presented in this section to obtain a wider understanding of it.

4.1.1 DAIRY FARMERS

Half of dairy farmers interviewed (9 from the X and XIV regions where the Chilean dairy activity is concentrated and 3 from the VIII and IX regions), indicated that New Zealand dairy investment in Chile such as Fonterra, Manuka and New Zealand in the south of

Chile might represent a threat to dairy farmers . However, they also see this as an opportunity for them. That threat is seen in the high competitiveness of New Zealand dairy farmers. The source of this competitive ability seems to lie in the fact that New Zealand production is based on meadows, investment in high technology, efficient dairy farmers and an easy access to financial support, etc. Together these aspects make New Zealand dairy farmers very hard to compete against because Chilean dairy farmers do not have these advantages. However, they are aware that this is not only New Zealand dairy industry to blame. They think that this is the responsibility of the Chilean government because it facilitates and encourages the access of foreign investment, which may damage the Chilean industry, especially since Chile is not sufficiently prepared to face the competitive advantages of the New Zealand dairy investment.

7 of these 12 interviews indicated that the New Zealand dairy presence through investment in Chile represents an opportunity. This opportunity is given by the chance for Chilean dairy farmers to improve and grow because they can learn from New Zealanders by copying and applying many New Zealand techniques to improve their own dairy production. Also it can help them become more competitive. 4 of the 7 interviews expressed the view that the New Zealand dairy model or dairy production, based on meadows, is the best option to improve the dairy production in Chile. It favors the production by hectare, using meadows as base for nourishment taking advantage to the maximum of the potential of the cows and meadows. Chile has 3 basic models of dairy production; these are the European or Intermediate one, the American or Intensive one, which is based in supplementary nourishment with high level of concentrate and the New Zealand explained above. Therefore, it is possible to choose between low costs and more cows by level of investment and high yields and individual attention. The dairy production in Chile is heterogeneous in terms of size of the farms (surface and number of cows), infrastructure, productive resources (ground types, cows and food), entrepreneurship, quality of workforce (high, medium and low training), experience, level of capitalization (from very low levels to very high levels) and productive and economic efficiency (from very low to high) of the dairy production in Chile.

One small owner says, “I do not see New Zealanders as a threat. In contrast, I see them as an opportunity. I think if we do the things properly and have the support from the government we are in good condition to compete”. Many other dairy farmers agree and think that this can be taken as a challenge because if they are not more competitive they are likely to disappear.

One of the respondents said that this may represent an opportunity to copy from New Zealand dairy farmers, in the way to commercialize milk production. This consists in an associative way grouped as boards, which are able to commercialize high volumes of milk in the international market getting consequently better prices. He also thinks that Chile is well positioned to compete in the international market, except with countries that subsidize their dairy production.

At the same time, 4 of these 7 respondents think that any investment does not matter because there will be a positive impact in terms of economic development, employment, innovation and technology for Chile. This represents an opportunity to create more employment and improves the Chilean economy.

From 7 of the 12 who are not expressing positive views (3 from the X Región, 2 from the XIV Región and 2 from the Metropolitan Región), some concerns and even negative opinions arose about the New Zealand dairy presence in Chile. These are related to the possibility of New Zealand dominating of the Chilean dairy industry because they are highly efficient producers and very competitive. The 7 respondents showed their concern about the possible future dominance of New Zealand over the dairy production in the south of Chile. One of them made a comparison with the salmon industry, “Here the same thing that happened with the salmon industry can happen again, which in the beginning was totally dominated by Chilean companies, however now the Chilean ones are just 2nd or 3rd behind other foreign countries such as Norwegian, United States, etc.”

The 7 respondents agree that New Zealand is a dairy power and their dairy farmers are able to produce high volumes of milk with low costs and that is something very hard to compete with. 1 of these 7 respondents who is from the Región Metropolitana (central zone) underlined the difficulties. He argues that it would be hard for them to apply the New Zealand dairy model given the conditions of small extension of land where a dairy production, based on meadows, is not possible.

5 of these 7 respondents expressed their concern about the possibility that Chilean dairy farmers might disappear. The respondents argued it might become more convenient to sell their farms to the New Zealanders and exit the dairy business rather than compete with them. In fact, New Zealanders have bought considerable land in the South of Chile (X and XIV Regions), as it is much cheaper than New Zealand land. This has raised the price of land in the south of Chile. They say that in some way the New Zealand dairy farmers in Chile are quiet because it's possible Soprole will buy their milk and this is a company well positioned in Chile. In fact, they have bought some land and are applying the New Zealand dairy production system. An important New Zealand dairy investment is called Manuka, a dairy New Zealand company that has recently bought a big area of land (about 23.000 hectares). 4 of them showed some concerns because they think that Manuka is able to supply such a sufficient amount of milk to supply a Soprole milk collection plant on their own, which could harm Chilean dairy farmers. This situation has led some Chilean dairy farmers to have negative feelings because they think the New Zealand dairy presence is a strong threat to Chilean dairy farmers' development. However, they are aware that Chile is an open economy which allows and encourages foreign investment. And there is not much they can do to go against it; they feel helpless to compete under these conditions.

On the other hand, 2 of these 7 respondents think that despite the many advantages of the New Zealand dairy model, it is not easy to apply in Chile given the idiosyncrasy of the Chilean farmers. They are people with of different backgrounds and customs to New Zealanders.

Another important opinion has risen from 3 of the 7 respondents before. This is the possibility that Fonterra would be able to obtain absolute control of the Chilean dairy market. They argued that although this is not a monopoly, the current situation could be called oligopoly because there is a high dominance (86 %) of Soprole and Nestlé of the Chilean dairy market. Those companies control the milk price and setting all the conditions to commercialize the milk, which are followed by the smaller dairy companies, leaving dairy farmers in bad conditions to negotiate.

5 dairy farmers (1 from the IX Región, 3 from the X Región and 1 From the Región Metropolitana) expressed their indifference about the New Zealand dairy presence in Chile, they were worried about producing and selling their milk, and feel that it does not matter who controls the Chilean dairy industry if they are obtaining good prices for their milk. “What the dairy companies do and how the companies do it, is not an issue for me, if I am happy about the milk price, I am not concerned where the companies are from,” one dairy farmer said.

The relationship between dairy farmers and dairy processing companies especially Soprole (Fonterra) has raised concern by 2 dairy farmers (1 from the X Región). They indicated that this relationship has changed for the better in recent years. Currently, dairy farmers feel more integrated considered by companies through technology transference and increased integration and by working together on some demonstration farms. They think that this change has arisen from a recent change of mind about the importance of dairy farmers for the dairy chain. Soprole and other dairy processing companies in Chile have increased the awareness of the key role of dairy farmers in the dairy industry, as they are the suppliers of the raw material and without them companies cannot exist. They have integrated dairy farmers to work together, showing if dairy farmers provide better quality, the milk processing companies can improve the quality of their products. Currently milk price regulation is much more transparent than it was some years ago. Dairy companies are periodically informed about the situation of the dairy market and what are their future orientations. One of these respondents says, “There has been a

radical change in the way how dairy companies relate to dairy farmers, they now are much closer to dairy farmers, much more interested to work together, integrating them and showing what market they intend to develop.”

Regards to the Trans- Pacific Strategic Economic Partnership (TPSEP) trade agreement, 9 of the 24 dairy farmers interviewed (3 from IX Region, 4 from X Region, 1 from XIV and 1 from Región Metropolitana) showed to have some knowledge about it. Those 3 (2 from X Región and 1 from XIV Región) showed a positive opinion about the agreement and believe that it is a positive and significant thing for Chile in terms of trade and relationships with other countries. They believe this because this and other trade agreements that Chile has firmed represents the international orientation of the Chilean economy. These 3 respondents agree that this is an opportunity to increase the New Zealand dairy investment in Chile and through it learn from New Zealand dairy. In addition, they indicated that this trade agreement is an beneficial association for Chile, given that New Zealand is considered the country with the best dairy development in the world. Similarly, 2 of those 3 dairy farmers think that TPSEP agreement opens a door for New Zealand to entry in the rest of South America, exporting from Chile to the rest of these countries. In addition 2 others indicated that this TPSEP trade agreement allows Zealand investors to take advantages from several others international trade agreements that Chile has (USA, Europe Union, China, etc.) to produce and export from Chile to other countries.

Another 2 respondents (1 from IX Región and 1 from X Región) believe this trade agreement might be dangerous for Chilean dairy farmers given that through this trade agreement Chile facilitates the entry of New Zealand dairy and other investments, which could damage Chilean dairy farmers because of the competition. And they even think New Zealand dairy farmers could be able to produce and supply all the milk needed by one of the Soprole collection plants localized in Osorno, in the south of Chile. This is convenient for Soprole because this is property managed by Fonterra, giving it direct returns to Fonterra in New Zealand. On the other hand, 4 dairy farmers (2 from IX

Región, 1 from X Región, 1 from Región Metropolitana) said they have heard about it but, are not enough informed to have a strong opinion and said it's the same as others trade agreements that Chile has with other countries and economic blocks.

In contrast, 15 dairy farmers (3 from VIII Región, 3 from X Región, 7 from XIV Región and 2 from Región Metropolitana) expressed their lack of knowledge about the TPSEP trade agreement and consequently did not have any opinion about that.

4.1.2 AGRICULTURE AND DAIRY ASSOCIATIONS REPRESENTATIVES

A total of 6 agriculture and dairy associations' representatives were interviewed (1 From the VIII Región, 1 from the IX Región, 1 from the X Región, 2 from the XIV Región and 1 from a national association that represent the whole country). From those, 5 expressed a positive opinion about New Zealand dairy presence in Chile. They believed that any foreign investment in the Chilean dairy industry is positive and welcome when it generates a positive effect. If this was to start to damage Chilean dairy farmers it would not be welcome anymore, "We do not have any problem with new foreign investment, in fact we promote it and when any investor ask for a meeting, we immediately receive him or her and try to convince him or her to invest in Chile, but we always say we are happy you invest in Chile, we are going to support and help you but if you do any stupid thing we are going to kick you," said one dairy association representative. In addition, similarly to positive opinions, 3 of those 5, argued that the New Zealand dairy participation in Chile is going to force Chilean dairy farmers to improve their competitiveness to be able to compete and even 1 of those 3 said that otherwise they are going to disappear. In contrast, 3 of the 6 respondents expressed some concerns because they think that New Zealanders dairy farmers have much easier credit access than the Chilean ones, who find many difficulties to obtain credits, especially/specifically the smallest ones. They also believe that there is a Fonterra support to invest in Chile but this situation has not been demonstrated.

With reference to the recent purchase made by Fonterra of the nearly total shares of Soprole, most of them (5) (1 From the VIII Región, 1 from the IX Región, 2 from the XIV Región and 1 from a national association that represent the whole country) expressed their dissatisfaction because they would have preferred that the Isabel Aninat Foundation(owner of Soprole) offered its shares to the Chilean dairy farmers first, in order to protect them from Fonterra and give them the chance to have an important participation in the company. This could have had been a big improvement for Chilean dairy farmers, in terms of participation, technology, price of milk and voice and representation inside the dairy industry. However, they are aware that this was a business transaction and the Soprole strategy has been always defined and led by Fonterra. In addition, these 5 agriculture and dairy association representatives also coincide in that as consequence of the before described, it has not been notable changes by this company in any sense.

According to 3 of the 6 interviews with agriculture and dairy association representatives the TPSEP trade agreement is positive in terms of investment and technology transference. They also think that dairy farmers can learn from New Zealander farmers because they are recognized in the world for their developed dairy industry and high dairy technology, an example of dairy development. However, from the beginning of the negotiations agriculture and dairy associations were strong opponents of it because they considered that this was a huge threat for Chilean dairy farmers due to fact that New Zealand could export its dairy products to Chile and sell them cheaper, because of low production costs. For that reason, after many discussions and pressure, they obtained a period of 12 years of tax deduction for dairy products imported from New Zealand. One dairy association representative said: “For New Zealand, Chile was a country where they could come and sell its dairy products. For that reason, we objected to the trade agreement, however as we realised that we were not to achieve the not sign of this, we asked for some conditions to have enough time to Chile become a dairy export country and able to compete with New Zealand”. Currently, they think that the real effects of it

are hard to measure and are strongly convinced that the TPSEP trade agreement has been a key factor for the Fonterra expansion in Chile.

In regards to the possible union of Soprole and Nestle, only one of the dairy farmers' representatives gave an opinion about that. He believes that this union is not attractive for Fonterra because its objective is using in Chile as a business platform to export. Fonterra, as a world company, is a raw material producer and not a retail sale company, except in Chile where through Soprole has a significant share market join to Nestle. The reason why the Union between Fonterra and Nestlé has been successful in other countries in Latin America such as Brazil and Argentina is because Fonterra is the supplier of raw material and Nestle sells the final products.

4.1.3 DAIRY PROCESSING COMPANIES REPRESENTATIVES

Dairy processing companies did not provide any information related to this because the interviews with them were mainly company information oriented.

4.1.4 GOVERNMENT AGENCIES REPRESENTATIVES

A total of 4 interviews were done with government agencies' representatives, 3 of them belong to people related to the dairy sector (2 Agriculture Ministerial Regional Secretaries of the X and XIV Regions and 1 professional dairy expert of the Ministry of Agriculture) and 1 to a person in charge of the PD, who only provided information related to that program and did not give any other information. The 3 people mentioned before showed a positive opinion of the New Zealand dairy presence in Chile. They believe that this is favorable in terms of the transfer of knowledge. The dairy production based on meadows seems to be the best option and New Zealand dairy farmers are highly effective in this kind of production. Also, they believe that Chile's dairy has the potential to grow, and the New Zealand investment in Chile represents a tool for the achievement

of that. They have a high opinion of Fonterra. Its export orientation constitutes a tool to Chile fortifies its dairy exports and penetrate new markets, Fonterra is already known in the rest of the world and has a good prestige which helps Chile.

The 3 interviews with dairy agencies', regarding the TPSEP trade agreement, revealed positive opinions from the government representatives. International free trade agreements are part of the Chilean policy oriented to the opening of international markets. To date, Chile has signed international free trade agreements with many countries and economic blocs, such as USA, Europe Union, China, Japan, etc. Therefore, according to these interviews the TPSEP is another trade agreement that looks not just for commercial exchange between countries, but for knowledge and cooperation exchange as well. In this context, New Zealand, as a dairy power, is able to transfer a lot of dairy knowledge and also make dairy investment that finally promotes the Chilean dairy sector. In the beginning of the TPSEP negotiations, Fonterra saw Chile as a chance to expand the sale of its products, one government agency representative said: "Perhaps Fonterra oversized the Chilean dairy market and thought that in Chile it was able to sell huge volumes". In fact, after the signing of the TPSEP, Chilean dairy farmers' concerns were confirmed because New Zealand was the main exporter of cheese to Chile. However that situation changed once Chile was able to satisfy its domestic demand and started to export its dairy products (mainly powder milk). Consequently, Fonterra, through Soprole, changed its policies and started to export its dairy products to markets where it already was positioned, such as Mexico. Therefore, for Chile Fonterra is a good tool to achieve its goal, which is to position Chilean dairy products in the international market.

4.2 OBJECTIVE 2:

“To identify the stakeholder roles of Chilean dairy farmers in the Chilean dairy industry, especially with regard to Soprole”

4.2.1 DAIRY FARMERS

Fourteen of 24 dairy farmers' respondents (1 from the VIII Región, 3 from IX region, 5 from X Región, 7 from XIV Región and 3 from the region Metropolitana) believe that the relationship between themselves and dairy companies is just a business one, which is a business transaction where dairy companies fix the milk prices and dairy farmers generally have not had the chance to negotiate it. According to this business relationship, the dairy farmers' role is defined as supplier of milk and the dairy companies are the buyer of milk, who fix the prices. The biggest dairy farmers, who supply high volumes of milk have more power to negotiate their prices given the dependence of dairy companies on their milk production, they are critical suppliers. Four of these 8 dairy farmers sell their milk to Soprole, which has been developing a program called PDP, described previously in chapter 1, point 1.2.2. PDP helps the development of suppliers and through dairy farmers, dairy companies and a government agency called CORFO. This allows dairy farmers to achieve major levels of flexibility and adaptability, and for the demand dairy companies assure the quality of products and/or services in the productive milk chain. Dairy farmers base the decisions to who to sell their milk on the price offered by this.

According to these 14 interviews, there is not a strong relationship that involves any loyalty with dairy companies.

Dairy companies provide information about milk price for a period of several months. There is no contract that compromises volume, price and the period of the time of selling milk between dairy farmers and dairy companies. In this context, 5 of these 14 dairy farmers (3 from X Region and 2 from XIV Region) feel very vulnerable to the conditions set by dairy companies because they have no voice and power to defend important and determinant aspects as milk prices. At the moment, the decision for dairy farmers to what dairy company selling the milk is only based on the price offered by dairy companies, one dairy farmer said: “It is a business relationship and the loyalty is not much, if during one, two or three months Soprole pays me less, I do not have much problem, I would stay with Soprole, but if I see that during the next year Soprole is going to pay me always less, well, although we have a good relationship I have to choose who pay me more”. From this quotation it can be appreciated the low level of loyalty that exists from dairy farmers to dairy companies and vice verse.

Two of the 8 respondents commented the low level of loyalty is because it's a business relationship, and there is not any other factor that might encourage loyalty between them. Furthermore the price milk is the crucial factor that overcomes any kind of other motivational factor such as technology transfer. One of these respondents comments that despite the fact he is able to negotiate the milk price due to the supplies a high volume of milk, being a strategic supplier for Soprole, the level of negotiation is still low. And given the milk market conditions in Chile, the rest of dairy companies have to follow the fixed price by Soprole. Also it is very hard to leave this company and find other interested ones to buy his milk at a higher price.

Seven other respondents (1 from VIII Región, 3 from X Región, 2 from XIV Región and 1 from the Región Metropolitana) think that the role of Chilean dairy farmers is very passive given the individualistic culture of Chilean farmers, in general. This individualistic way to work causes a low level of association and consequently is one of the causes of the nearly no voice inside the dairy industry to represent and defend their interests. Four of them talked about the “Centros de Acopio Lechero (CALs)” (Milk

Collection Centres). These has been an opportunity of association for dairy farmers, CALs are units of receipt and cooling of cow milk handled by the own dairy farmers, who allow them to commercialize their milk and to reach benefits to which they do not have access in individual form, such as safety in the sale of milk, bonuses in the price, technical assistance and training, they are producers' associations of a geographical certain area, in most cases of informal type, which they sell as a whole their milk to an industrial dairy collection plant. Hereby, instead of each one delivers small quantities, they join and offer an important volume of milk, which justifies the interest of the dairy plants for this modality of commercialization. However, these don't have problems such as the difference of quality of milk supplied by diverse kind of dairy farmers, distinct level of technology, some of them supply good quality, others supply regular quality and others even bad quality that can become infected milk, contaminating and damaging the rest milk, difference of amount of milk that each dairy farmers supply according to his/her capacity of production. All these problems have caused some dairy farmers to leave the CALs and work independently.

Five of these 7 (2 from X Región, 2 from XIV Región, and 1 from the Región Metropolitana) respondents expressed their desire to have for more voice and representation, they lament they do not have the power to negotiate the milk price, a small dairy farmer said "I have always said that we have a product and we are not able to fix its price, there is always someone else who fixes the price of our product, this is an unfair situation for us, simply dairy companies impose the price". They think that one way to achieve more voice and participation inside the dairy industry is through the association between them, this would give them power and consequently more voice to defend and work to protect their interests. Two of them comment that dairy associations have just worked when dairy farmers faced critical situations. And that they only look for help when something goes wrong or when the demand for association increases. Three of these 7 dairy farmers recognize that their passive role is in part their fault, because they are very individualistic and not incline to work together, there is a lack of interest to participate even in the agricultural and dairy farmer associations, they attend t meetings

and show interest just when they are facing a crisis, otherwise when everything seems to be going fairly well they remain passive.

The situation is different for those dairy farmers who supply to Colún, a dairy cooperative company; under this context dairy farmers are both the suppliers of milk and the owners of the company. This helps by giving them more voice and representation, taking part of the decision making, reporting about the company performance and receiving a bond for the earning company.

Three dairy farmers (1 from VIII Región, 1 from XIV Región and 1 from the Región Metropolitana) believe that their role is fundamental inside the dairy industry in Chile because they are the supplier of raw material, meaning they are essential players in the dairy chain because without them the dairy industry cannot exist. In addition, they are a source of full time labor for many people especially in the X and XIV regions of Chile where the dairy activity is concentrated. However, from the integration and participation point of views, they think that their role is just to supply and produce a good quality of milk; they do not see another kind of participation.

4.2.2 AGRICULTURE AND DAIRY ASSOCIATIONS REPRESENTATIVES

According to the interviews from 6 agriculture and dairy associations, 5 (1 from VIII region, 1 from X Región, 2 from XIV Región and 1 from a national dairy association) of them think that the relationship between dairy farmers and dairy processing companies is a business one. Dairy farmers are just the suppliers of milk with no other participation than to sell the milk at a fixed price by dairy companies. They define the dairy farmers' role as just supplier of milks. They think that agriculture and dairy associations give dairy farmers more representation inside the dairy industry, by defending them, especially when dairy farmers are affected by any situation, such as milk subsidies, negotiations of international trades, etc. However, they argue that their role as agriculture and dairy

associations is not focused on obtaining more participation in the dairy companies' decisions. They feel that they do a good job, in terms of representation of dairy farmers inside the dairy industry, but this is distant to have some strong representation in the dairy companies' decisions.

On the other hand, they think that dairy companies have to change their mind in the recent years and understand the important role of dairy farmers in the milk chain. They know that without dairy farmers there is no milk and consequently no business and so they are involving them more. In the past, when the Chilean dairy industry faced a crisis the only ones that suffered were the dairy farmers, however that has changed because many dairy farmers simply disappear and dairy companies have lost many of their suppliers. Dairy companies have understood the effect of crises must be shared for the whole chain and not just harm dairy farmers. Nevertheless, this is in an initial phase and not a fact yet.

One of the dairy association's representatives defines the role of dairy farmers as a very important one, given that they are grouped in Associations. Every single dairy farmer does not have power, so associations give them politic power inside the Chilean dairy industry "I think that we have a fundamental role inside the dairy industry because we are grouped. If FEDELECHE did not exist we would not have anything. But for the fact of existing FEDELECHE and of possessing the prestige and weight that has, we have a fundamental role, we have the political power inside the industry," said a representative from FEDELECHE.

4.2.3 GOVERNMENT AGENCIES REPRESENTATIVES

Two of the 4 government representatives interviewed (1 secretary regional ministry and 1 representative of ODEPA) believe that this situation is a variable of agreement between dairy farmers and dairy companies., The bigger dairy companies, such as Soprole and Nestlé have done an effort for improving their relationship with the dairy farmers,

especially giving information of prices and trends of market. Nevertheless they do not have a structure of representation inside the industry and these are companies directed by managers who work with the owners of capital without major consideration of the opinion of the producers. This situation changes in the cooperative companies, a very good example is Colún, where producers of all the sizes are represented. And the company advises the management in a way that the made decisions are in joint and informed form. Also one of them comments that there are other dairy companies such as Surlat that are involving more of their dairy farmers and giving them the chance to buy a percent of the company stocks, and thus they will have more participation in the company decisions.

Likewise, dairy farmer government representatives think that the relationship between dairy farmers and dairy processing companies is a business one; they recognize that in general terms dairy farmers are just the suppliers of milk. Except dairy farmers that supply to Colún they are highly represented because as it has been explained before, this is a dairy cooperative where dairy farmers are represented in the Directory and are part of the decisions through their representatives. However they think that the role of dairy farmers is very important because they are the suppliers of raw material and without them the dairy industry cannot exist.

Furthermore, government agency representatives think that the role of Chilean dairy farmers is becoming more important inside the dairy industry. They think that the dairy chain is more interrelated and is interacting under the same interests. An example of that is the PDP, this financing is given to the dairy processing companies to work with dairy farmers in topics that are important for both, the most common one, quality. To date, this program has been extremely successful and most of dairy farmers are involved. Both dairy processing companies and dairy farmers work together to improve the quality of the raw material. In this context, the role of dairy farmers is to supply good quality milk to support the growing Chilean dairy industry and the diversification and penetration of new market for the dairy exports. “The role of dairy farmers is very important, they are the

suppliers of raw material for which they are a principal actor inside the dairy industry” (Regional Secretary of the Ministry of Agriculture).

4.3 OBJECTIVE 3:

“To identify what the farmers believe about their effective voice and control over future directions of the dairy industry in Chile”.

According to 5 dairy farmers interviewed (2 from VIII Región, 1 from X Región and 2 from XIV Región) the role of dairy farmers inside the dairy industry will continue being the same in the future, not much voice and representation inside the Chilean dairy industry. They believe that the only way to obtain some representation and voice inside the dairy industry is through association between them which can be given by different ways, such as association to buy inputs, work together, negotiate together, get representation, etc. However, there have been some experiences and the problem seems to be consistently the same, this is the differences between dairy farmers in aspects such as milk quality, opinions to make decisions, different interests etc. Also, they argue that it is hard to get power of negotiation when there are a few dairy companies in Chile buying the milk, so there is a kind of an oligopoly, with fewer dairy companies and many suppliers of milk. They also recognize that despite they would like to get more participation there is a lack of interest to participate. As it is mentioned previously, the agriculture idiosyncrasy and culture is not inclined to work in associations, the Chilean farmers are very individualistic people and each dairy farmer is able to look after its dairy farm and not look beyond it. They prefer to work on their own, because they think that it is quite complicated to get consensus to work with more people. They also say that they do not have time to meet others, the geographic distance is too great between them and each person is too busy working on their farms.

Sixteen dairy farmers (1 from VIII Región, 2 from IX Región, 7 from X Región, 4 from XIV Región and 2 from Región Metropolitana) expressed their desire for more association to achieve more representation and power. They think that this is going to be the way dairy farmers could be organized in the future. They are convinced that association is the best way to obtain better prices to buy the inputs and sell the milk. Being associated with other dairy farmers facilitates the purchase of inputs by volume and negotiating better prices because they are buying high volumes (economies of scale). Also the chance to buy high volumes means that it is possible buy to suppliers that in an individualistic way is not feasible, given the factors as payment conditions, due dates to pay, etc. Similarly, association is an intelligent way to obtain better prices for milk sold. 5 of the 14 dairy farmers (1 from IX Región, 3 from X Región and 1 from XIV Región) believe that agriculture and dairy associations give dairy farmers the political power in the dairy industry arguing that this would give them more empowerment in the future.

Three dairy farmers (1 from IX Región, 1 from XIV Región and 1 from Región Metropolitana) argued that dairy cooperatives are the only feasible way to obtain more voice and participation inside the Chilean dairy industry. However, they believed that it is complicated because a cooperative is formed by many different people with different thoughts and interests. Also commonly cooperatives are transformed into companies that are managed by people/employees who are not members of the cooperative and finally just look for increase the cooperative profits and not after their members, which was the original sense of their creations.

Seven dairy farmers' interviews (2 from VIII Región, 3 from IX Región, 2 from X Región and 1 from XIV Región) revealed a high level of uncertainty about the future of the dairy industry in Chile. This is related with unpredictable factors that directly influence the performance of dairy farmers, such as variations of oil prices, dollar fluctuation, high cost of inputs, high costs of fertilizers and so on. In addition, dairy companies do not provide long term price of milk information. Consequently, it is hard to project and make grow up their business because there are many elements that are out of

their control. However they are positive about the expectative of dairy industry growth in the future and despite the external sometimes out of control factors, dairy business is still a convenient choice.

On the other hand, most of the dairy farmers interviewed (2 from VIII Región, 3 from IX Región, 4 from X Región, 5 from XIV Región and 1 from Región Metropolitana) showed positive opinions about the future of the dairy industry in Chile. They are convinced that Chile has much potential to develop its dairy sector due to its natural and climate conditions, big extensions of land, good phytosanitary characteristics, and natural barriers such as the Andes mountain range and the Pacific Ocean that protect the country against diseases. All of them coincide about the importance of the openness of new market for the growing of the Chilean dairy industry. Furthermore the European Union(EU) represents an interesting and promissory market to access with big populations and strict regulations. The EU has been withholding access of Chilean dairy products because it is necessary to be absolutely free from diseases such as tuberculosis and brucellosis. This is currently being worked on by the Chilean government; however it is a long term task. Ten of them mentioned the current situation of the growing demand of milk by countries with huge populations such as China and India. Here many people are rising from lower to middle class which increases the demand for milk, and this is a great opportunity for dairy product exports.

On the other hand, 4 of them (1 from IX Región, 1 from X Región and 2 From XIV Región) believe that an example of Chile potential to grow its dairy industry is given by the arriving of New Zealand dairy farmers to mainly the X and XIV Region, buying land and developing the dairy business. Chile is a country where there is still space to grow and not as New Zealand where the dairy activity has not much more space to keep growing.

4.4 OBJECTIVE 4:

“To develop an understanding of the effective governance roles of each stakeholder group in the Chilean dairy industry”.

4.4.1 DAIRY FARMERS

As it has been mentioned in previous objective analysis, the effective governance of dairy farmers in the Chilean dairy industry has been reduced; however this depends strongly on the kind of companies that buy the milk (privates or cooperatives enterprises) and the dairy farmer's size which determines their power of negotiation.

From the 24 interviews of dairy farmers, 18 belong to private companies (13 from Soprole, 3 from Nestle, 2 from Mulpulmo, 1 from Surlat and 1 from Lácteos del Sur) and 4 from Colún, the biggest dairy cooperative in Chile. It is from this point of view that the dairy farmers' opinions were collected.

All people interviewed in this study (24 dairy farmers, 6 agriculture and dairy association representatives, 4 government agency representatives and the 3 dairy companies representatives) strongly coincide that the level of governance in the Chilean dairy industry is low, except for those that belong to a dairy cooperative or/and are enough big to have some power of negotiation for prices, but even they are not taken into account as much as the company. They argued that all private dairy companies govern with no involvement from their farmers. They just transfer technology and provide information about short-medium term milk prices and world milk market conditions and trends. As it has been described in previous objective analysis, dairy companies, dairy farmers and government work together in a program called PDP, which support dairy farmers through technology transference and training, credits, etc. to improve the quality of their milk to

achieve a good quality of final dairy products. A FEDELECHE representative said “Probably, any dairy farmer that would like to be member of a dairy company, being a shareholder or member of a dairy cooperative and have the power to influence in the decisions making or even can give opinions about the company strategies, etc. However, beyond of the company can tell what is going on around and what they are doing. The true is that a single dairy farmer is not able to do anything about that”.

All people interviewed, except dairy companies representatives, expressed their concern and unhappiness about a situation that they think is unfair, that is the unilaterally fixation of price by dairy companies which transfers all the cost to the dairy farmers. For example when the world milk price falls down, they transfer all that cost to dairy farmers who mainly are medium and small companies, not assuming part of the cost as well as a way to balance the load and not just harm dairy farmers.

The 20 dairy farmers (3 from VIII Region, 3 from IX Region, 6 from X Region, 5 from XIV Region and 3 from Región Metropolitana) that supply milk to private dairy companies say that their level of involvement in the companies’ decisions is nothing. In Chile, in contrast to New Zealand, given that most of dairy companies are private, dairy farmers do not have the chance to obtain governance in the dairy industry. They are just suppliers of milk and the relationship is about business. And this depends strongly on the price per liter of milk that dairy companies pay, which is fixed unilaterally by the dairy companies. This is led by Soprole and Nestlé, given that they are the biggest dairy companies in Chile. However, they are free to move to another dairy company if it offers a better price per liter of milk, normally there is not any contract and loyalty that can avoid it. For example, a medium dairy farmer says “We are just dairy producers, we do not have any kind of participation, we just supply milk and the conditions are set by the dairy companies, we cannot do anything about that.”

For dairy farmers that supply milk to Colún a big dairy cooperative, the level of governance and involvement on decisions is different. The dairy cooperative model was

common many years ago in Chile but it nearly disappeared in the decades of the 70's and 80's, just some survived due to successful management. Colún is one of those, this company involves its dairy farmers in its decisions, allows participation in board meetings with their representatives, and chooses their representatives, this way the decisions are shared.

Three of the 4 Colún dairy farmers interviews (2 from X region and 1 from XIV Región), 2 of the government representatives (1 from ODEPA and 1 from XIV Region) and 3 agriculture and dairy association representatives (1 from FEDELECHE and 2 from IX Region) argued that dairy farmers belonging to Colún are happy about the company and feel well represented. And they at least feel a grade of confidence because they are protected under this figure, knowing that Colún makes its decisions and takes into account their opinions and concerns, a small dairy farmer said “I belong to Colún so I always going to have an advantage because I am part of Colún. Whereby, in case milk prices get negative variations, the company does not transfer it to us because we are part of the company”. In contrast, 1 of them (from XIV Región) expressed disappointment because Colún dairy farmer representatives are always the same people and the fixation of prices, made by Colún, that dairy farmers have to accept the price fixed by the company being also the owners of it. He thinks that the directory board protects the company interests and not the dairy farmers' ones, and dairy farmers' representatives might claim better prices of milk. Otherwise, Colún is working as a private dairy company which loses the cooperative sense.

According to 10 dairy farmers (1 from VIII Region, 1 from IX Region, 2 from X Region, 4 from XIV Region) and 1 dairy association representative (1 from FEDELECHE) the level of governance of dairy farmers is also determined by the volume of milk that they are able to supply. Big dairy farmers have some influence or power of negotiation because they are big and supply a significant amount of milk, however they are very few in Chile, most are medium and small.

As it has been mentioned previously in objective 2 point 4.2.1 of this chapter, 8 dairy farmers who belong to X and XIV Regions (5) and VII and IX Regions (3) believe the dairy farmers' role is just defined as a supplier of milk, the only duty of dairy farmers is supply good quality of milk. The relationship with dairy companies is a just a business one. Three dairy farmers (1 from VIII Region, 1 from XIV Region and 1 from Metropolitan Region) express that their role as supplier of milk is fundamental in the dairy chain, because without dairy farmers there is not an industry. Dairy farmers are the base of the dairy chain and many others depend on them. Dairy companies set the rules, they set the prices of milk and whether or not want they buy milk from someone, they can change that overnight, a small dairy farmer gives the follow opinion: "I am just worried about produce the best quality of milk as I can to dairy companies keep collecting my milk, because I am a small dairy producer that does not supply a large volume of milk, so anytime the dairy company can stop to collect my milk".

Arising from these interviews there are three ways of dairy farmers' interaction or involvement with dairy companies. The first one concerns private dairy companies who involve dairy farmers through transference of technology and the information of milk price, which explains the fluctuations of milk prices, informing about exports, international prices, etc. Therefore, they just involve dairy farmers in an informative way, very far from a consultative or decisive one. Respect to cooperatives as Colón integrated dairy farmers by representation of them in the directory. Furthermore they work as a normal cooperative company and the only special figure is Surlat because it has incorporated its dairy farmers, small and medium suppliers, through capital injection and this way they participate in the revenues and the discussion about the company strategies.

According to 5 dairy farmers (2 from X Region and 3 from XIV Region), 2 agriculture and dairy association representatives (1 from X Region and 1 from IX Region) and 3 government agency representatives the current relationship between companies and dairy farmers has improved during the last 5 -6 years because of that companies realized about the importance of their dairy farmers. Currently companies are concerned about their

dairy farmers. They know that without dairy farmers they can not exist, and try to maintain their dairy farmers reasonably quiet. Two interviews (1 from dairy association representatives) believe that about 6 years ago, was a critical time for dairy farmers and many of them disappeared, especially the smallest ones. This situation caused a rise of the average milk price given that they were less dairy farmers to supply milk.

Seven interviews with dairy farmers (1 from VIII Region, 3 from X Region, 2 from XIV Region and 1 from the Metropolitan Region), 1 to dairy association representatives and 1 to government representative expressed that idiosyncrasy and culture of the Chilean agriculture is very individualistic. There is a lack of association and trust. Each dairy farmer looks for their own solutions. They work together when they face crisis, once that the crisis is finished they back to work, the FEDELECHE's President said " We would like that our meetings had more participation, when there is a problem everyone come along but when everything is going well, they leave me act because I am doing well". Three dairy farmers from XIV Region and 1 dairy association representative think given that dairy farmers make their own decisions to sell milk on the prices; they can easily change the companies to supply without any kind of loyalty and concern affecting the rest of dairy farmers in case they are associated. For example, there are some cases when dairy farmers have associated, enabling them to obtain higher milk price and cheaper inputs. However, when one of them has got a better price offer, that person just changes the company in which it sells milk to and this causes problems for the rest of dairy farmers because if they are associated they should get more power of negotiation. In addition, they argue that they have no time and cannot leave the farm alone to participate in association and attend meetings recognizing lack of interest, a small dairy farmer expressed "My level of participation is very low, we leave this to the rest, actually I cannot complain because I do not participate".

Five dairy farmers (2 from X Region, 2 from XIV Region and 1 from Metropolitan Region) expressed the view that would like more representation in the dairy industry, at least more transparency in the milk price fixation, and a more participative role to

negotiate milk prices. Apparently Chilean dairy farmers are just worried about the production of good quality milk and how to sell it to the best possible price; they are still not concerned about governance issues.

4.4.2 AGRICULTURE AND DAIRY ASSOCIATIONS' REPRESENTATIVES

There are several agriculture and a few dairy associations. The biggest dairy association is FEDELECHE, which has a national representation. Most of dairy farmers in Chile belong to FEDELECHE (about 60%). In fact, the 24 interviewed people belong to it. They participate in FEDELECHE through APROLECHE which is a regional dairy association that represents the regional concerns of dairy farmers in FEDELECHE. So the members of FEDELECHE are the members of APROLECHES. All the agriculture and dairy associations representatives interviewed believe that the main role of FEDELECHE is to look after the interest of dairy farmers. It looks after dairy farmers through the following actions: market transparency, dairy imports, dairy exports and the relationship with the companies. Its role is mainly consulting and not decisive. This means that they participate in some important activities such as the milk board led by the government. Its opinion is taken into account and even they can have pressure to obtain results but not the final decisions, the FEDELECHE's CEO said "Dairy associations act as a valid speaker and the opinions and approaches are considered by dairy companies, which does not mean that they do that, which is absolutely logic".

The 24 dairy farmers interviewed seemed to be happy about FEDELECHE. They feel well represented by this federation and think that it has done a good job because it has achieved many things that were not possible before. FEDELECHE has got close ties between dairy companies and farmers and has showed that dairy farmers are able to manage enough information to refute dairy companies' arguments. "FEDELECHE's role has been fundamental; thanks to FEDELECHE we are not like we were 10 years ago when dairy companies were our enemies and not our partners," (medium dairy farmer).

FEDELECHE has been a key factor when some conflicts have emerged in the Chilean dairy sector. It has represented dairy farmers in a proper way giving them all the support needed. For example, the PARMALAT bankruptcy case in 2003, a big Italian dairy company that operated in Chile. At the moment of bankruptcy this company owed a huge amount of money to Chilean dairy farmers, so FEDELECHE had to act and defend dairy farmers to receive the payment. Also, FEDELECHE participated very actively in the negotiations of the TPSEP. This Federation strongly represented dairy farmers in this negotiation because of the Threat New Zealand was to Chilean dairy farmers and they achieved a tax reduction for 12 years for New Zealand dairy products in Chile.

Three dairy farmers (1 from X Region and 2 from XIV Region) talked about their lack of participation in FEDELECHE's meetings. This is something that both dairy farmers and FEDELECHE recognize. Dairy farmers argue that they have no time to attend meetings because that means leaving the farm alone and driving long ways to the cities. It seems to be that dairy farmers just participate actively during time of crisis, but when everything is going relatively well they remain very passive.

4.4.3 DAIRY PROCESSING COMPANIES REPRESENTATIVES

From all the interviews it has been identified that most of the dairy processing companies in Chile are private companies operating under the rules of free market. Companies fix all the conditions like milk prices, milk quality, quantities, etc. This high level of governance is given by the strong position that they have inside the Chilean dairy industry and the weak position the negotiation power that dairy farmers have, except a few of those who negotiate huge volumes of milk, "Dairy companies fix prices of milk, qualities, all the policies and we have to accept it" (medium dairy farmer). Dairy processing companies that operate in Chile do not have any representation structure, these are companies directed by managers that just respond to the requirement of their shareholders. "Soprole

says my only relationship with you is to buy your milk and pay for that,” (small dairy farmer).

All the interviews showed the fixation of prices as the most sensitive issue for dairy farmers and the strongest one for dairy companies. They have the power to fix prices in a deliberate way because they can decide to who will buy the milk and how much it will cost. Furthermore they do not have any kind of contracts with dairy farmers. They can suddenly decide to stop to buying milk and this especially affects small dairy farmers not affecting the companies' milk supply.

On the other hand, as mentioned before, Colún, is a Chilean dairy cooperative among the three biggest dairy companies in Chile. Its shareholders are dairy farmers and milk suppliers as well. Under this structure dairy farmers are represented in the directory and their opinions and requirements are supposed to be considered. Colún gives an incentive to its dairy farmers called 13 month, which is a kind of bond where year revenues are shared among its shareholders (its dairy farmers). However, the fixation of price is unilaterally done by Colún, and theirs is following the biggest dairy companies' fixation of prices.

However, 7 dairy farmers (1 from VIII Region, 1 IX Region, 2 from X Region, 2 from XIV Region and 1 from Metropolitan Region) , 2 agriculture and dairy association representatives (one from FEDELECHE and 1 from XIV Region) and 2 government agencies representatives coincide that the relationship between companies has been improving in recent years. At least they feel more represented than some years ago, when the companies did not take them into account. Today they work together in programs such as PDP and have better communication because dairy companies have understood the importance of dairy farmers for the dairy industry and chain.

4.4.4 GOVERNMENT AGENCIES REPRESENTATIVES

According to the 4 interviews done with government representatives, 3 of them belong to the Ministry of Agriculture. The Ministry of Agriculture plays a role as creator of policies to the Chilean dairy sector. By the creation of agreements between public and private sectors (companies and dairy farmers) they generate policies, programs and plans of development of the dairy sector in technique, productive, sanitary and organizational development issues in the context to Chile became a agro-food power, which is one of the goals of the current government.

The Ministry of Agriculture through the Oficina de Estudios y Políticas Agrarias-Office of Studies and Agrarian Policies (ODEPA) coordinates a milk board to promote the development of the dairy national sector. Public and private representatives linked to the dairy sector participate in this board, such as: the Servicio Agrícola y Ganadero-Agricultural Service and Livestock (SAG), The Fundación para la Innovación Agraria-Foundation for the Agrarian Innovation (FIA), the Instituto de Desarrollo Agropecuario - Institute of Agricultural Development (INDAP), the Program of Promotion to the Chilean Exports (PROCHILE), the Asociación de Exportadores de Lácteos- Association of Dairy Manufacturers for the Exportation of Dairy Products (EXPORLAC) and the dairy farmers from FEDELECHE. “I think that we have to create the policies with the players, with the companies and dairy farmers. Our purposes that this country became a dairy country, the same way as is a salmon country and a wine country and we are promoting all our resources for this purpose,” (Milk Division Manager of ODEPA).

The 3 interviewed expressed that for the Chilean government the dairy sector is very important. In the regions X and XIV dairy industry is a strong source of employment. In addition, it is an important industry in nutrition terms, because dairy products are essential for the healthy development of the population.

The government promotes the investment and open market through international trade agreements. Currently Chile has signed many with countries such as the USA, European Union (EU), China, Japan, etc. Furthermore, the Chilean government protects the dairy sector from the subsidized dairy products that have arrived from countries such as USA and European Union. In addition, some institutions as the Foundation of the Agrarian innovation (FIA) and the National Institute of Agriculture Research (INIA) are in charge to do R&D (Research and Development) to protect the dairy sector from diseases. Moreover, Chilean government supports its dairy farmers through some programs and tools. They are able to help them financially by soft credits offered by INDAP and technology transference, such as PDP which works with public funds.

Also through a program called PROMOLAC the government has been stimulating the national milk consumption by advertising campaigns in television, schools, etc. This works with government, dairy processing companies and dairy farmers' funds. However, the interviewers showed some complaints because the government has diminished its support during the recent years.

El Consorcio Lechero (Dairy Consortium) is a company mainly funded by the government and by dairy farmers through FEDELECHE, dairy processing companies, service companies and institutions dedicated to the academic and productive investigation. All these players work together to manage and develop programs orientated to promote the competitiveness of the Chilean dairy chain. Therefore, this is an activity where all the players participate under a common interest, which is the modernization of the dairy sector through research and development. This was created as a sample for the dairy companies' awareness of the importance of having informed dairy farmers. This makes it possible to work together on a project for the future of the Chilean dairy industry.

Twelve dairy farmers (3 from VIII Region, 1 from X Region, 4 from XIV Region and 2 from Metropolitan Region) and 2 agriculture and dairy associations' representatives (1

from FEDELECHE and 1 from XIV Region) think the government should play a more active role by getting involved in the development of dairy farmers, not just giving them the tools mentioned before. All of them agree the government must work to achieve more voice and participation of dairy farmers. Especially, because currently they are under the arbitrary conditions fixed by dairy companies and it is very unstable and unpredictable situation for them. Four farmers (1 from IX Region, 1 from X Region and 2 from XIV Region) expressed unhappiness with the government performance in the dairy ambit because they feel unprotected and alone, arguing that government is not working enough to protect and defend this sector. Furthermore 1 of 4 believe that government supports the Agricultura Familiar Campesina – Familiar Rural Agriculture (AFC) which gives them access to flexible credits and tools that are more beneficial to them like PDP and technology transference because they are the weaker ones. Similarly, 2 dairy farmers (1 from IX Region and 1 from X Region) and one agriculture association representative from X Region spoke on the behalf of creating policies that protect and encourage dairy sector. Especially, policies for dairy farmers that make them less vulnerable to the dairy market conditions, which internationally, is very complex. These are hard conditions because they are competing with countries that subsidy their milk production and also the US dollar fluctuations.

CHAPTER 5: DISCUSSION

The aim of this chapter is to collate and discuss the findings of the previous chapter. Firstly, the opinions of Chilean dairy farmers as well as the opinions of agriculture and dairy associations and government representatives about Fonterra and other New Zealand dairy investment in Chile are presented.

A total of 12 dairy farmers (out of 24), 6 dairy and agriculture association representatives and the 3 government representatives interviewed expressed positive opinions about the New Zealand dairy presence in Chile through Fonterra and other dairy investments. Those opinions coincide in the opportunity for Chilean dairy farmers to learn from the New Zealand dairy experience in terms of mechanism of milk production, highly efficient low costs, using the production based method on meadows and the associative way to commercialize milk. They also agree that any investment in Chile has a positive effect, in terms of economic development, innovation and introduction of high technology.

In contrast, only dairy farmers interviewed (7 out of 24) showed negative opinions about the New Zealand dairy presence in Chile. They based the arguments on the difficulties to compete with a dairy power nation as New Zealand because of the very competitive dairy farmers who able to produce high volumes of milk with low costs. Even 5 of them believe that there is risk of New Zealand dairy farmers dominating the Chilean farmers because it might be more convenient, in the long term, for Chilean dairy farmers to sell their farms rather than compete.

Regards to the TPSEP trade agreement, 11 of the 24 dairy farmers interview showed knowledge about it, 9 had a positive opinion, thinking that this is important for Chile in terms of trade and relationship with other countries. They believe like other international trade agreements this represents the international orientation that the Chilean economy has had during the last decades. Similarly, 3 agriculture and dairy association

representatives and 3 (out of 3) government representatives interviewed showed positive opinions about it. They agree that this will attract investment and technology transference and that Chilean dairy farmers could learn much from this.

Nevertheless, it is widely recognized that in the beginning of the negotiations dairy association representatives were strong opponents. They believed that this represented a threat in terms that it gave New Zealand the chance to export its dairy products to Chile and sell them even cheaper than the Chilean ones. However, that was solved through a period of 12 years of tax deduction for New Zealand dairy products that are exported to Chile from New Zealand. And to date it is hard to know the real effects of it. However, they think that the TPSEP trade agreement was a decisive element for Fonterra to decide its expansion in Chile.

The second objective of this study attempts to identify what the stakeholders' roles of Chilean dairy farmers in the Chilean dairy industry, with special focus on Soprole. Several dairy farmers interviewed (14), most of agriculture and dairy association representatives (5) and all the government agencies representatives coincide that the relationship between dairy farmers and dairy companies in Chile is just delimited to be a business one. This is only based on a transactional relationship where the price of the milk is the key factor, which is unilaterally fixed by dairy companies and dairy farmers who are unable to negotiate it. Under this context, dairy farmers have a role just as the suppliers of milk, with no other participation. Obviously there are some exceptions; however, there are few, only big dairy farmers are able to negotiate the milk price offered by dairy companies and that is given by the volume of milk supplied. This is a relevant factor for the companies because they are important suppliers, providing significant milk volumes to a dairy factory.

In regards to Soprole, despite the business relationship and the role of dairy farmers there is only limited suppliers of milk, but through the PDP, Soprole joins other dairy companies and through the government with CORFO, and as It has been mentioned

before, they work together to achieve the improvement of the integration of dairy farmers, as suppliers of milk, in the dairy chain. And they also work to stabilize the commercial connection with dairy companies. This allows better levels of flexibility and adaptability for dairy farmers and at the same time dairy companies assure the quality of their products. Others 7 dairy farmers argue that the role of Chilean dairy farmers is very passive due to a very individualist culture of Chilean dairy farmers, which is reflected in the very low level of association and consequently is one of the causes of the nearly no voice inside dairy industry and low level of representation. Three dairy farmers think that their role is fundamental because they are the suppliers of raw material and without them the dairy industry simply cannot work.

The third objective looks to find out about what dairy farmers believe about their effective voice and control over future directions of the Chilean dairy industry. Most of the dairy farmers interviewed (15) are positive about the future of the Chilean dairy industry. They think that the country has much potential to develop its dairy sector with big extensions of land, good climate conditions appropriate for dairy activity, etc. Coinciding in that the opening of new markets is a key factor for a successful future of this industry.

In contrast, 7 dairy farmers (25% of them) feel uncertainty about the future of the dairy sector due to unpredictable factors such as variations of oil prices, dollar fluctuation, high costs of inputs and fertilizers and so on, even though it is complicated making projections and growth prediction on the business. However, despite these unstable factors they still believe in a successful Chilean dairy industry development and for them dairy activity is still a convenient business.

Others, including 5 dairy farmers, think that their role will continue to be the same, supplying milk in an only business relationship. For them the only way to obtain more voice and representation is through association, which can be given by different ways, such as buying inputs, working together and negotiating together, etc. However, there

have been some not successful experiences which can be attributed to the differences between them in aspects such as quality of milk, opinions about decision making and mainly that the Chilean dairy farmer culture is not inclined to association, it is very individualistic.

Despite the association difficulties mentioned previously, 16 dairy farmers would like to experience more association in order to achieve more voice and power. In fact, they are in agreement that the way dairy farmers are organized in the future will help determine the best way to obtain better prices for the milk and buy inputs obtaining economies of scale. These dairy farmers think that the only way to obtain more voice and representation is through dairy cooperatives.

The last and fourth objective aims to understand the effective governance roles of each stakeholder group in the Chilean dairy industry. This study considers 4 groups of stakeholders including Chilean dairy farmers, agriculture and dairy associations, dairy processing companies and the Chilean government.

According to the findings all people interviewed strongly agree the level of governance of Chilean dairy farmers inside the dairy industry is very low, except for the bigger dairy farmers. The bigger dairy farmers supply huge volumes of milk which make dairy companies strongly depend on them and dairy cooperatives, such as Colún, who have voice and representation given the cooperative business model. However, most of dairy farmers in Chile are small and medium and do not belong to dairy cooperatives, meaning they do not have any voice. This situation is given by the business relationship between dairy farmers and dairy companies. These last ones buy the milk and fix the price unilaterally and dairy farmers are free to move from one dairy company to other that offers better conditions (price, payment, technology transference, etc.). The conditions offered by the different dairy companies are very similar and led by the big ones such as Soprole and Nestlé. In addition, all people interviewed, except dairy companies representatives, are agreed this situation is unfair. They expressed concern because of

the unilaterally fixation of milk price that make dairy companies transfer all their costs to dairy farmers, especially when world milk price decreases, affecting small and medium dairy farmers mainly.

The stakeholder role of dairy farmers that supply to Colún is absolutely different. They are represented and have voice in the company decisions, participating in the board meetings through their representatives, elected by them. Three from the 4 interviewed from Colún's dairy farmers, 2 government agency representatives and 3 agriculture and dairy association representatives agree that they have good representation and are happy to be part of this, believing that Colún represents their interests and protect them.

The interviews reveal three types of involvement or interaction between dairy farmers and dairy companies. The first one is given by technology transference to dairy companies and the providing of milk price information, the explanation of milk price fluctuation, milk exports, international milk price, milk price trends, etc. Being that it's an informative way to get involved. The second one is about the involvement of dairy farmers that belong to dairy cooperatives who have voice, integration and representation. The third and last one is a unique situation given by Surlat because this dairy company has incorporated small and medium dairy farmers through capital injection where they participate in revenue and discussion about the company strategies.

Regards to agriculture and dairy association roles inside the Chilean dairy industry, the interviews reveal that there are several agriculture associations and a few dairy associations, the biggest being FEDELECHE. And it has been mentioned in chapter 4, point 4.4.2 that they have a national representation through the participation of its members by Aproleche that represents regional or territorial interest of dairy farmers in FEDELECHE. 60% of dairy farmers in Chile belong to FEDELECHE and all the dairy farmers interviewed in this study belong to it too.

The main role of FEDELECHE is to look after the interest of dairy farmers in Chile. They do this through the following lines of actions: market transparency, dairy imports, dairy exports and the relationship with the companies. Its main role is consultative and not decisive, they have participation in important activities, such as the milk board led by the government, its opinions are considered and they do not make the final decisions.

All dairy farmers interviewed feel well represented by FEDELECHE, thinking that FEDELECHE has achieved many advances, things that without its intervention they would not be able to accomplish, they agree its role is fundamental for dairy farmers in Chile. This federation has managed to bring the dairy farmers over to the dairy companies. FEDELECHE has been a key factor dealing with some conflicts that have emerged in the Chilean dairy sector. It has represented dairy farmers in a proper way by giving them all the support needed.

According to all the interviews, dairy processing companies have a decisive role. They are the group of stakeholders that dominate the Chilean dairy industry. Their level of governance is very strong, fixing the milk price, quality, quantities and all the dealing conditions. This high governance is given by the power of negotiations that they have, being some dairy processing companies are very big, whereby they can highly influence the Chilean dairy market conditions, with companies as Soprole (Fonterra) and Nestlé that have the 19,1% of the share market.

For dairy farmers interviewed, the fixation of prices by dairy processing companies is the most sensitive issue because this is arbitrarily done by dairy companies. In addition, dairy companies determine to whom will buy milk and how much and they can even stop the purchasing of milk to a dairy farmer in any moment, due to the lack of contracts the indicate commitments.

The only exception is Colún a dairy cooperative company and one of the biggest dairy companies in Chile. Under the cooperative figure its shareholders are dairy farmers and

the milk suppliers as well. In this context, dairy farmers are represented in the directory and their opinions and requirements are supposedly considered. Despite all of this, the fixation of price is unilaterally done by Colún, following the biggest dairy companies' fixation of prices.

However, some interviews from dairy farmers, agriculture and dairy association representatives and government representatives reveal that the relationship between dairy processing companies and dairy farmers has improved in recent years. At least there are more consideration and communication. The PDP program has been a good example of improving the relationship and expressing that dairy companies have understood the importance of dairy farmers for the dairy industry in the dairy chain.

Finally, the interviews with dairy government agencies representatives (3) indicated that the role of the Chilean government inside the dairy industry is merely a creator of policies to the Chilean dairy sector by the agreements between public and private sectors (companies and dairy farmers) to generate policies, programs and plans of development of the dairy sector in technique, productivity, sanitary and organizational development issues.

The interviews from Chilean government agency representatives indicate that, for them, the dairy sector is significant given that is a source of employment and work in regions IX, X and XIV, where dairy activity is concentrated. Furthermore it is important in terms of nutrition because it is known dairy products are fundamental for the healthy development of the population.

The government promotes investment and open market through international trade agreements. Also, the Chilean government protects the dairy sector from the subsidized dairy products that have arrived from countries such as USA and Europe Union (EU). In addition, some institutions as FIA and INIA are in charge to do R&D to protect the dairy sector from diseases. Another way to protect and support it is through some programs and

tools that help them financially through soft credits offered by INDAP and technology transference, such as PDP, which works with public funds. Also the government, through a program called PROMOLAC, has been stimulating the national milk consumption by some advertising campaigns in television, schools, etc. And this works with the government, dairy processing companies and dairy farmers' funds.

El Consorcio Lechero is a company mainly funded by the government and by dairy farmers through FEDELECHE, dairy processing companies, service companies and institutions dedicated to the academic and productive investigation. All these players work together to manage and develop programs orientated to promote the competitiveness of the Chilean dairy chain. Therefore, this is an activity where all the players participate under a common interest, which is the modernization of the dairy sector through research and development. This was born as a sample for the dairy companies awareness of the importance of informed dairy farmers that make it possible to work together to project the future of the Chilean dairy industry.

In addition, 2 interviews with dairy farmers and 1 agriculture dairy association representative showed a concern and desire for obtaining more support from the Chilean government. They believe that Chilean government should play a more active role and get more involved in the development of dairy farmers, not just giving them the tools of development, which has been mentioned before. The government should encourage the voice and representation of its dairy farmers especially inside the dairy industry, given the current scenario where dairy companies arbitrarily fix all the conditions making it unstable and unpredictable for dairy farmers. Four dairy farmers interviewed think that this is possible through the creation of policies which could protect dairy farmers.

CHAPTER 6: CONCLUSIONS

The finding of this study constitutes very interesting and useful information not analysed deeply before. This will serve for further studies about the voice and governance of Chilean dairy farmers in the Chilean dairy industry with particular regards to the New Zealand dairying presence in Chile.

The general final conclusion of this study is the very low level of voice and governance of dairy farmers in the Chilean dairy industry and the high influence of Fonterra, a New Zealander dairy cooperative company, through Soprole in Chile, being it one of the biggest dairy companies in the country leading the conditions of the market.

As been mentioned previously, the findings show that the stakeholder role of dairy farmers in Chile is limited to be just suppliers of milk. The relationship between dairy farmers and dairy companies is only based in a business transaction where dairy farmers prefers sell their milk to who pay more and dairy companies have very low level of involvement with their suppliers of milk, having not any loyalty between them. The more sensitive issue for both dairy farmers and dairy companies is the fixation of milk price and this is done unilaterally by dairy companies being Soprole (Fonterra in Chile) and Nestlé those companies that lead it because they are the biggest ones. The only notable exception of a different relationship is the existent between Colún and their dairy farmers is because Colún is a cooperative company where their suppliers of milk are their owners at the same time and have voice and more involvement on the company decisions but still that way the price is fixed unilaterally by Colún following the milk price market. Dairy processing companies have a high level of governance inside the Chilean dairy industry. In fact, they strongly dominate it, they just only fix milk prices also all the negotiation conditions, such as quality, period of time, quantity, etc, which is a clear disadvantages for dairy farmers being under a nearly oligopoly figure where Soprole and Nestle (the two biggest dairy companies in Chile) have manifested several times their interest for a

joint venture which would damage strongly dairy farmers and customers because they would fix both price of milk for suppliers and prices of dairy products in Chile.

Despite these aspects, in general terms dairy farmers feel well represented by dairy and agriculture associations and think that they are responsible for not participating more because they are individualistic people that do not participate much and just do when something is threatening them as dairy farmers.

The TPSEP trade agreement encourages the New Zealand dairy investment in Chile, attracting it to Chile and facilitating the expansion of Fonterra through Soprole. The impacts of this are hard to measure, however it is clear that with not trade agreement Fonterra had not expand much in Chile, because it gives more guarantees and facilities to invest.

Association is seen as an alternative to obtain more power, participation and voice by dairy farmers because in this way they might achieve things that are hard to in a individual way, such as power to negotiate for better milk prices, convenient purchasing input conditions, etc. However, dairy farmers think that will be hard to achieve given the individualistic Chilean farmer idiosyncrasy.

This study recommends the creation of alternatives to give more participation to dairy farmers in the Chilean dairy industry. This can be achieved from the work that must realize together both Chilean government as creator of policies and dairy and agriculture farmers associations with the co-operation of dairy companies. The association among dairy farmers is a key factor to achieve more involvement and consideration of their interests and demands. It is fundamental the dairy farmers work in a organized way for the protection of their interests to claim for the support of the government. The current passive of participation does not contribute to achieve more involvement and participation. The intervention by the government can be done by the generation of new policies and laws, that allow dairy farmers at least be more informed and get some rights

to claim for better conditions and also protect them from abuses. Also some strategies can be created to commit the existence of contracts between dairy farmers and dairy companies that fix aspects such as ranges of milk prices, quality, support, etc.

Given that the purpose of this study is to obtain an evaluation of the effective voice of Chilean dairy farmers in the Chilean dairy industry with particular regards to New Zealand dairying presence in Chile a model of collaborative governance seems a good option to be explored to analyze how involve dairy farmers in the Chilean dairy industry. They are key actors in the milk chain and without them dairy industry cannot exist, therefore they must be heard, taken into account in the decisions companies and consider on their demands for more involvement, because they are finally whose supply the raw material and need constant support from dairy companies to provide good quality of milk and dairy companies must be fair on the milk price offered, understanding that back to a profit maximization strategy there is key factor that must be care, they are the stakeholders, especially dairy farmers.

This model as has been mentioned in chapter 2, point 2.1.4 includes and considers the participations of public and private actors in a collective decision making process that may be a very good contribution for the closeness and inclusiveness of dairy farmers to dairy industry. The six criteria considered by Ansell and Gash (2008) seem to be a good alternative to state a model of collaborative governance for the Chilean dairy industry. Same as the proposed by those authors this can be initiated by 1) a forum where by public agencies or institutions start the debate 2) participants in the forum include not just government actors also include, in this case, others relevant stakeholders such as dairy farmers, agriculture and dairy association representatives, dairy companies representatives and members or community organizations affected by dairy activity, 3) all this participants indicated in the previous point are considered by public agencies 4) the forum is formally organized and meets collectively, 5) the purpose of the forum is to make decisions by consensus, 6) the focus of collaboration is on public policy that

regulate and encourage the integration of dairy farmers and all other stakeholders in the dairy industry making decision process.

The process described before must be in all its phases transparent and participative achieving final results that must balance the benefits for all the stakeholders may be through laws and agreements that must be respected and followed for everyone.

Further research is required to better understand the stakeholder role of dairy farmers inside Chilean dairy industry and the likely outcomes of the TPSEP trade agreement. Most of the available studies about technique aspects of dairy industry and this study is one of the few that analyses dairy farmers as stakeholders, being at least very curious in a country where dairy farmers has been historically postponed and not considered.

In addition further research is necessary to explore new alternatives of integration of dairy farmers to achieve more voice in the governance of the Chilean dairy industry. These studies should extend the analysis to a greater number of people interviewed with more key players that are linked to dairy sector, such as academic people linked to agriculture and dairy sector especially to rural development, more government representatives, dairy companies representatives, community organizations, Non Government Organizations (ONG), etc. A focus group methodology would be a useful tool to obtain interesting and valuable information that would cause debate and interesting point of views about how take the problem.

One of the main constraints found in the realization of this study was the absence of a dairy farmer's data base that indicated the number of farmers and their distribution by size and region. If this had been available it would have facilitated the selection of a random stratified sample, which would consequently have been more representative than a convenience one which had to be used. The convenience sample used depended strongly on the contacts and nets of the researcher, which made the study less

representative because the trends and thinking of all groups are not necessarily represented among those selected.

Time to do the interviews, long distances and difficult access to the farms was another limitation. The researcher had nearly two months to make the contacts in Chile, travel around Santiago (capital city where the researcher was located) and four other regions in the South of Chile, stating as base of operations the main cities and then traveling to rural places with very difficult access road. This situation made complicated the capture of more random interviews, despite the sample was by convenience, also stratification by size and region was considered.

Language was another constraints but not to do the interviews because the researcher is a native Chilean Spanish speaker, this limitation was given by the transcription of all of them and then the translating to English to analyze the data, which was very time consuming but necessary because is more accurate, the dialect spoken by dairy farmers is really special and hard to translate into English because it lose the core meaning.

REFERENCES

- Ansell, C., & Gash, A. (2008). Collaborative governance in theory and practice. *Journal of Public Administration Research and Theory*, 18(4), 543-571.
- Barton, J. R., Gwynne, R. N., & Murray, W. E. (2007). Competition and Co-operation in the semi-periphery: closer economic partnership and sectoral transformations in Chile and New Zealand. *The Geographical Journal*, 173(3), 224-241.
- Blayney, D., Langley, S., Miller, J., Normile, M. A., Somwaru, A., Stillman, R. & Stout, J. (2003). *A Trade Liberalization in International Dairy Markets: Proceeding of the American Agricultural Economics Association Annual Meeting, Montreal, 27-30 July 2003*. Canada.
- Boatright, J. R. (1994). Fiduciary Duties and the Shareholders-Management Relation: Or What's so Special about Shareholders? *Business Ethics Quartely*, 4(4), 394-407.
- Boom de la leche ¿con fecha de vencimiento?(2007, July 9). El financiero, p. 11.
- Buchholz, R. A. & Rosenthal, S. B. (2005). Toward a Contemporary Conceptual Framework for Stakeholder Theory. *Journal of Business Ethics*, 58 (1-3), 137-148.

Challies, R.T (2004). Towards closer economic partnership?: a comparison of neoliberal restructuring in the dairy complexes of Chile and New Zealand. Published master thesis. Victoria University of Wellington, Wellington, New Zealand.

Challies, E. R. T., & Murray, W. E. (2006). Productive transformations and bilateralism in the semi-periphery: A comparative political economy of the dairy complexes of New Zealand and Chile. *Asia Pacific Viewpoint*, 47(3), 351-365.

Cooper, D. R., & Schindler, P. S. (2006). *Business Research Methods* (9th ed.). New York, NY: Mc Graw Hill.

Corbin, J., & Strauss, A. (1990). *Basics of Qualitative Research Techniques and Procedures for Developing Grounded Theory* (2nd ed.). London, United Kingdom: Sage Publications.

Corporación de Fomento de la Producción (n.d). *Programa de Desarrollo de Proveedores (PDP)*. Retrieved from [http://www.corfo.cl/lineas_de_apoyo/programas/programa_de_desarrollo_de_proveedores_\(pdp\)](http://www.corfo.cl/lineas_de_apoyo/programas/programa_de_desarrollo_de_proveedores_(pdp))

Cox, T. & Zhu, Y. (2005). Dairy: Assessing World Markets and Policy Reforms: Implications for Developing Countries. *Global Agricultural Trade and Developing Countries*, (161-176).

Cristino, C. (2007, June 22). Productores Rechazaron Fusión Soprole-Nestlé. *Estrategia*, p 15.

Deblitz, C. & Ostrowski, B. (2001). *La competitividad en Producción Lechera de los países de Chile, Argentina, Uruguay y Brasil*. Food and agricultural Organization.

Denzin, N. K., & Lincoln, Y. S. (2005). *The Sage Handbook of Qualitative Research* (Third ed.). United States: Sage Publications.

Dirección General de Relaciones Económicas Internacionales (2006). *Relaciones Chile-Nueva Zelanda En el Contexto del P4*. Santiago, Chile.

Dirven, M. & Ortega, L. (1998). *El Clúster Lácteo en Chile*. CEPAL Comisión Económica para América Latina y el Caribe.

Dirven, M. & Ortega, L. (2001). *El Complejo Productivo Lácteo de Chile. En Apertura Económica y desencadenamientos productivos*. Santiago, Chile: CEPAL.

Evans, L. (2004). *Structural Reform: The Dairy Industry in New Zealand*: Proceeding of the APEC High Level Conference on Structural Reform, Tokyo, 8-9 September 2004. Tokyo, Japan: APEC.

Fassin, Y. (2009). The Stakeholder Model Refined. *Journal of Business Ethics*, 84, 113-135.

Freeman (1984). *Strategic Management: A stakeholder approach*. Boston, U.S.: Pitman.

Fonterra to lift shareholding in Chilean dairy company Soprole (2008, April 29).

Retrieved 18.03.2009, from
<http://www.fonterra.com/wps/wcm/connect/fonterra.com/fonterra.com/our+business+news/media+release+archive/fonterra+to+lift+shareholding+in+chilean+dairy+company+soprole>.

Fresno, S. (2006). *Comparación de los sectores agrícolas de Chile y Nueva Zelanda, y posibles efectos de un tratado de libre comercio sobre la agricultura chilena*. (Published undergraduate thesis). Pontificia Universidad Católica de Chile, Santiago, Chile.

Fuller, F. H., Beghin, J. C., Boland, M., Babcock, B. A., & Foster, W. (2006). *Global Prospects for Dairy in Argentina and Chile: Evidence from Field Visits and Model Simulations*. Midwest Agribusiness Trade and Research Information Center.

Galetto, A. (2008). *El mercado internacional de leche y productos lácteos: Situación actual y factores que explican su comportamiento: Proceeding of the 9ª Edición del Seminario de Producción Lechera para Estudiantes Universitarios en el INTA*,

Rafaela, 9-10 October 2008. Rafaela, Argentina: Instituto Nacional de Tecnología Agropecuaria.

Goodpaster, K. E. (1991). Business Ethics and Stakeholder Analysis. *Business Ethics Quartely*, 1(1), 53-73.

Goodpaster, K. E., & Holloran, T. E. (1994). In Defense of a Paradox. *Business Ethics Quartely*, 4(4), 423-429.

Keasy, K., Thompson, S., & Wright, M. (1997). *Corporate Governance: Economic, Management and Financial Issues*. New York, United States: Oxford University Press.

Larivière, S., & Meilke, K. (1999). An Assessment of Partial Dairy Trade Liberalization on the U.S EU-15 and Canada. *Canada Journal of Agricultural Economics*, 47 (15): 59-73.

Lee-Jones, D. E. (2008). *New Zealand Dairy and Products, Dairy and Products Semi-Annual Report 2008*. Gain Report, USDA Foreign Agricultural Service.

Letza, S., Kirkbride, J., Sun, X., & Smallman, C. (2008). Corporate governance theorizing: limits, critics and alternatives. *International Journal of Law and Management*, 50(1), 17-32.

Liamputtong, P., & Ezzy, D. (2005). *Qualitative Research Methods* (2nd ed.). Melbourne, Australia: Oxford University Press.

Mack, N., Woodsong, C., MacQueen, K. M, Guest, G., & Namey, E. (2005). *Qualitative Research Methods: A Data Collector's Field Guide*. North Carolina, US: Family Health International.

Marens, R., & Wicks, A. (1999). Stakeholder Theory, Managerial Practice, and the General Irrelevance of Fiduciary Duties Owed to Shareholders. *Business Ethics Quartely*, 9(2), 273-293.

Moraga, E. (2006, November 27). Neozelandeses Invierten en Lecherías de la X Región (2006, November 27). *Revista del Campo, El Mercurio*, p. 6.

Moura, A., & Mujica, C. (2004). *Analisis de las tendencias del mercado nacional e internacional de la leche*. Published undergraduate thesis, Pontificia Universidad Católica de Chile, Santiago.

New Zealand Trade & Enterprise. (2006). *Chile Country Brief*. Santiago, Chile.

Oficina de Estudios y Políticas Agrarias (2009). *Boletín de la Leche*. Santiago, Chile: ODEPA.

Oficina de Estudios y Políticas Agrarias (2010). *Boletín de la Leche*. Santiago, Chile: ODEPA.

Organisation for Economic Co-operation and Development (2004). *An Analysis of Dairy Policy Reform and Trade Liberalisation: An Analysis of International Dairy Trade Liberalisation*.

Patton, M. Q. (2002). *Qualitative Research & Evaluation Methods* (2nd ed.). California, United States: Sage Publications, Inc.

Philips, R. A. (1997). Stakeholder Theory and a Principle of Fairness. *Business Ethics Quartely*, 7(1), 51-66.

Porter, M. E. (1998). *The Competitive Advantage of Nations: with a new introduction*. New York, United States: Free Press.

Portilla, B. (2000). *La Política Agrícola en Chile: Lecciones de tres décadas*. Santiago, Chile: CEPAL.

Radin, T. J. (1999). *Stakeholder theory and the law*. Charlottesville, Virginia: Darden Graduate School of Business Administration, University of Virginia.

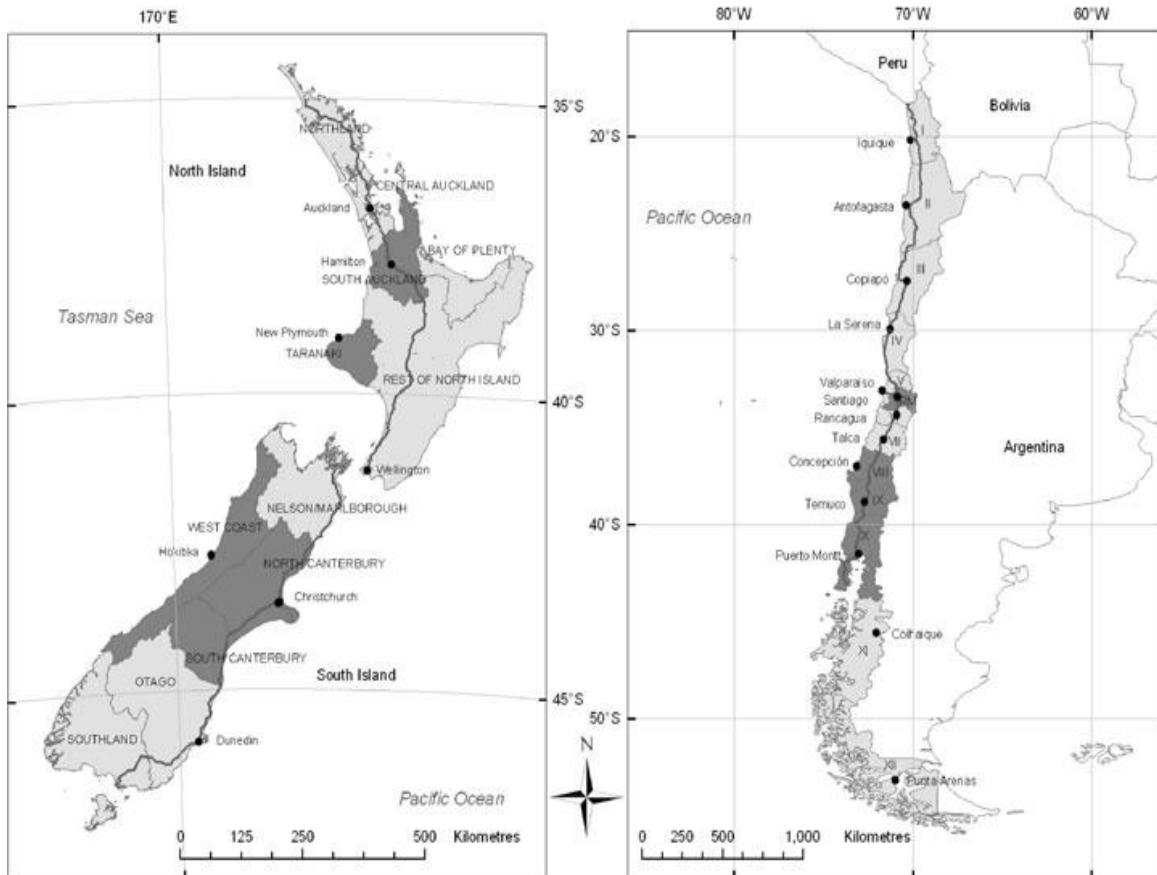
Reichers, A.E., & Schneider, B. (1990). *Climate and culture: An evolution of constructs*. San Francisco, United States: Jossey-Bass.

Silva, J. I. (2005). *Análisis del mercado lácteo chileno y neozelandés y efectos sobre el sector lácteo nacional con la firma del tratado de libre comercio con Nueva Zelanda*. Published undergraduate thesis, Pontificia Universidad Católica de Chile, Santiago, Chile.

Vargas, G. (2001). Cambio estructural en el sector lechero chileno: Potencial exportador y desafíos. *Ciencia Investigación Agraria*, 28(3), 117-129.

APPENDICES

APENDIX 1: MAP OF NEW ZEALAND AND CHILE



Source: Challies, E. R. T., & Murray, W. E. (2006). Key dairy farming regions (in dark shading).

APENDIX 2: CHILEAN MILK RECEPTION BY PLANTS AND REGIONS (2008-2009)

	2008	%	2009	%
Región Metropolitana	151.184.614	7,67%	147.182.759	8,30%
VIII Región	205.196.190	10,41%	181.828.634	10,26%
IX Región	275.232.973	13,96%	194.149.048	10,95%
X Región	810.311.300	41,10%	803.755.068	45,34%
XIV Región	529.701.462	26,87%	445.754.210	25,15%
TOTAL	1.971.626.539	100,00%	1.772.669.719	100,00%

Source: (Oficina de Estudios y Políticas Agrarias [ODEPA], 2010)

APPENDIX 3: QUESTIONNAIRES

DAIRY FARMER QUESTIONNAIRE

Name: _____

Institution/company: _____

Position: _____

Address: _____

Date: _____

1. Are you aware of the trade agreement between Chile and New Zealand?

Yes ☐ No ☐

2. Are you aware of the current participation of Fonterra, a New Zealand dairy company, in Soprole?

Yes ☐ No ☐

3. Do you know about other New Zealand dairy investments in Chile?

Yes ☐ No ☐

4. If the previous answer is Yes, what other New Zealand dairy investments do you know?

5. If any of the answer number 2 or 3 is yes what are your opinions about these?

6. From your position as a dairy farmer, what do you think is your role inside the dairy industry?

7. What associations or other representative groups do you belong to?

8. Do you feel well represented inside the dairy industry?
9. At what level do you feel represented e.g. government, Association, industry?
10. Do you belong to any dairy association or any other group of representation?
11. How well does the dairy association which you belong to represent your personal interest and the general interest of the all dairy farmers?
12. What is your vision of the future of the dairy industry in Chile?
13. What is your vision about the future role of the Chilean dairy farmers in the dairy industry?
14. What needs to be done and by who to brings all this about?

ASSOCIATION QUESTIONNAIRE

Name: _____

Institution/company: _____

Position: _____

Address: _____

Date: _____

1. Are you aware of the trade agreement between Chile and New Zealand?

Yes ☐ No ☐

2. Are you aware of the current participation of Fonterra, a New Zealand dairy company, in Soprole?

Yes ☐ No ☐

3. Do you know about other New Zealand dairy investments in Chile?

Yes ☐ No ☐

4. If the before answer is Yes, what other New Zealand dairy investments do you know?

5. If any of the answer number 2 or 3 is yes what are your opinions about these?

6. Do you think that dairy farmers are well represented in the dairy industry?

7. What is the role of this association in the Chilean dairy industry, especially with regard to dairy farmers?

8. What do you think is the role of Chilean dairy farmers' governance of the dairy industry?

9. What is your vision about the future role of the Chilean dairy farmers in the dairy industry?
10. What is your vision of the future of the dairy industry in Chile?

GOVERNMENT QUESTIONNAIRE

Name: _____

Institution/company: _____

Position: _____

Address: _____

Date: _____

1. What do you think of the significance and benefits of the agreement between Chile and New Zealand?

Yes ☐ No ☐

2. Are you aware of the current participation of Fonterra, a New Zealand dairy company, in Soprole?

Yes ☐ No ☐

3. Do you know about other New Zealand dairy investments in Chile?

Yes ☐ Yes ☐

4. If the previous answer is Yes, what other New Zealand dairy investments do you know?

5. If any of the answer number 2 or 3 is yes what are your opinions about these?

6. What do you think is the role of Chilean dairy farmers' governance of the dairy industry?

7. Do you think that dairy farmers are appropriately represented in the dairy industry?

8. What is your vision about the future role of the Chilean dairy farmers in the dairy industry?

9. What is the role of government in the dairy industry, especially with regard to dairy farmers interest, participation, development, etc.?