Property Rights Problems in Agricultural Cooperatives: A Heterodox Institutionalist Perspective

Eigentumsrechtliche Probleme der ländlichen Genossenschaften: eine heterodoxe institutionalistische Perspektive

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Abstract

New institutional economists have identified a number of property rights problems in agricultural cooperatives. This paper reconsiders these problems from the perspective of heterodox institutional economics in the tradition of Veblen and Ayres. The property rights problems of agricultural cooperatives seemingly reinforce the new institutional economics presumption of the superiority of fully delineated private ownership. In contrast, the paper shows these problems to be likewise consistent with the heterodox institutionalist school, which is much more reserved about the societal role of private ownership. Toward this end, the paper elaborates the logical structure of the so-called “institutionalist dichotomy”. The property rights problems of agricultural cooperatives are explained as a particular manifestation of this dichotomy.

Key Words
property rights; agricultural cooperatives; VEBLEN; AYRES; institutionalist dichotomy

1 Introduction

The new institutional economics literature on agricultural cooperatives contains two broad themes. One theme explores the ability of agricultural cooperatives to economize on transaction costs and to develop countervailing power. By doing so, cooperatives either protect their members, who often possess specific assets, from being exploited by opportunistic contractual partners (BONUS, 1986; STAATZ, 1987; HANSMANN, 1996; VALENTINOV, 2007) or deliver those goods and services which cannot be provided by investor-owned firms because of high transaction cost (VALENTINOV, 2009). The second theme, which is the central concern of the present paper, accentuates the institutional disadvantages of agricultural cooperatives that have become known as their property rights problems, or incentive problems (COOK, 1995). Due to these problems, agricultural cooperative members felt discouraged from investing significant risk capital (HANSMANN, 1996; COOK and ILIOPoulos, 2000) and were unable to make efficient collective decisions (HANSMANN, 1996; ILIOPoulos and HENDRIKSE, 2009). While not principally limited to agricultural cooperatives, property rights problems became particularly pronounced in this type of cooperative in the 1980s as these organizations entered a new era of an
unusually difficult and hostile business environment. Since then, agricultural cooperatives have been facing fierce competition with powerful food and agricultural input conglomerates, as well as financing shortages caused by deteriorating capital markets. Given these challenges, the property rights problems of agricultural cooperatives have resulted in numerous liquidations and conversions into investor-oriented firms (Cross et al., 2009; Chaddad and Cook, 2004), as well as in the experimentation with new cooperative models.

The property rights problems of agricultural cooperatives seemingly reinforce the general new institutional economics presumption about the superiority of fully delineated private property rights over other property regimes that deviate from this ideal. Several decades ago, Alchian and Demsetz (1972) predicted that any deviation from fully delineated private property rights, i.e., attenuation of private property rights, would lead to economic inefficiency. Modern cooperative scholars working in the new institutional economics tradition build on this argument by highlighting the heterogeneity of cooperative member interests as a serious challenge to the attenuated property rights structures of cooperatives (cf. Hagedorn, 1998). Moreover, Hansmann (1996) emphasized the importance of stakeholder interest heterogeneity as a major determinant of the diversity of ownership arrangements in a market economy. It is primarily due to the apparent failure of cooperative property rights to accommodate interest heterogeneity that these property rights have been designated as ‘vague’ and ‘ill-defined’, as compared with the fully delineated private property rights of the investor-oriented firm (Cook and Iliopoulos, 2000), even though, according to Hansmann (1996), some cooperatives (e.g. those marketing agricultural products) are less affected by the heterogeneity problem than others (e.g. those purchasing farm machinery).

The objective of this paper is to reassess the property rights problems of agricultural cooperatives from the perspective of heterodox classical institutionalist economics in the tradition of Veblen and Ayres, a perspective that is somewhat atypical for the study of modern cooperatives. The societal role of private ownership is the object of significant controversies between heterodox institutionalism and new institutional economics (cf. Hagedorn and Beckmann, 2010; Ostrom, 2006). While recognizing the civilizational value of private ownership, heterodox institutionalists point out its potential associations with ceremonial invidiousness, pecuniary emulation, waste, and economic coercion. Veblen (1994: 18) saw the dominant incentive for ownership in the “invidious distinction attaching to wealth”; to him, private ownership is at the heart of the dissociation between the interests of businessmen and the interests of the community at large (Veblen, 1958: 20). Ayres likewise regarded private ownership as a pecuniary ceremony that is static, backward-looking, and basically inhibits social progress.

The critical institutionalist view of private ownership thus needs to be reconciled with the property rights problems of agricultural cooperatives. Institutionalists may have a good point in criticizing the deficiencies of social structure that are causally interrelated with the institution of private ownership; but what is the institutionalist position on the apparent superiority of private property rights in the case of agricultural cooperatives? What new institutional economists call property rights problems reflects the real-world pressures experienced by Western agricultural cooperatives. While new institutional economists understandably interpret these pressures to support their case for private ownership, the heterodox institutionalist tradition needs to develop a different interpretation that is continuous with the classic arguments of Veblen and Ayres. Developing this interpretation is the main contribution of the present paper.

The paper’s strategy is to build on the notion of the institutionalist dichotomy, i.e., the dichotomy between instrumental and ceremonial value (e.g., Tool, 2001; Hamilton et al., 2010). The dichotomy highlights the contrast between the two types of values that guide human behavior: the instrumental value which is progressive and dynamic, and the ceremonial value which is static, backward-looking, and inhibits societal problem-solving. This dichotomy is utilized in order to articulate an institutionalist understanding of the meaning of cooperative organization and, based on that, to reconsider the property rights problems of agricultural cooperatives. Given the highlighted differences between the perspectives of classical and new institutionalist economics, it is easy to anticipate that the institutionalist approach to cooperatives and their property rights problems will radically differ from the mainstream approach of new institutional economics. The development of this approach in the present paper is preceded by a brief overview of the property rights problems, and is followed by elaborating an institutionalist framework of institutional choice between cooperative and for-profit investor-oriented organization.
2 New Institutional Economics of Cooperative Property Rights

New institutional economics defines cooperatives in terms of their unique property rights structure. In cooperatives, membership is restricted to a specific class of member patrons, and membership rights are tied to patronage. Furthermore, in traditional cooperatives, the transfer of ownership rights is restricted and limited returns are paid to the invested capital. This results in the separation of the user and investor roles which are nevertheless combined in the same persons-members (VITALIANO, 1983; BORGEN, 2004). New institutional economists believe this property rights structure generates a number of incentive problems (COOK, 1995; BORGEN, 2004), as summarized in Table 1. To new institutional economists, these problems justify the designation of cooperative property rights as being vague and ill-defined (COOK and ILIOPoulos, 2000).

While property rights problems are not unique to agricultural cooperatives, it is these cooperatives that appear to be affected most severely. The primary reason for this is related to the structural and socio-economic characteristics of the food and agribusiness industries. For example, markets for agricultural commodities are typically highly competitive, with farmers acting as price-takers (SCHERER, 1996). Consequently, farmers are likely to accept higher prices temporarily set by processors, thus endangering their cooperatives through free riding behavior. The horizon problem is likewise very severe, particularly for agricultural cooperatives. Given that in many countries farmers’ children do not remain in farming, and given that ownership in a cooperative is not transferable to non-farmers, the upper limit of farmers’ investment horizon is limited to their retirement age. The portfolio problem is exacerbated in agricultural cooperatives by the high correlation between farmers’ incomes and those of their processing cooperatives. Such a high correlation is not typical of other industries or types of cooperatives (e.g., consumer cooperatives). Agricultural cooperatives are particularly prone to the control problem because the decision-making skills of individual members are primarily geared to managing their individual farms and cannot be easily transferred to the cooperative context. Therefore, it is often more difficult for farmers than for urban cooperative members to monitor cooperative managers. Finally, the influence costs problem is strongly felt in agricultural cooperatives because many of them are multipurpose organizations consisting of distinct member groups that compete for the board’s and the manager’s attention. Recent studies show that influence costs incurred by agricultural cooperatives are higher than in other types of collective action (ILIOPOULOS and HENDRIKSE, 2009).

Table 1. Property rights problems of agricultural cooperatives

<table>
<thead>
<tr>
<th>Problem</th>
<th>Description</th>
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<tbody>
<tr>
<td>Free Rider Problem</td>
<td>A situation where current members or non-members use a resource for their individual benefit and property rights are not well-suited or enforced to ensure that current member-patrons or current non-member-patrons bear the full costs of the actions and/or receive the full benefits they create. This situation is typical for open membership cooperatives.</td>
</tr>
<tr>
<td>Horizon Problem</td>
<td>A situation where a member’s residual claim on the net income generated by an asset is shorter than the productive life of that asset (PORTER and SCULLY, 1987). This problem is caused by restrictions on the transferability of residual claimant rights and restricted liquidity through a secondary market for the transfer of such rights. The horizon problem creates an investment environment in which there is a disincentive for members to contribute to growth opportunities. This problem is particularly severe with respect to investment in research and development, advertisement, and other intangible assets.</td>
</tr>
<tr>
<td>Portfolio Problem</td>
<td>A situation where cooperative members, due to the lack of transferability, liquidity, and appreciation mechanisms for the exchange of residual claims, are not able to adjust their cooperative asset portfolio to match their personal risk preferences. In cooperatives, the investment decision is “tied” to the patronage decision and thus, from an investment point of view, members hold suboptimal portfolios. As a result, members attempt to encourage cooperative decision-makers to rearrange the cooperative’s investment portfolio even if the reduced risk means lower expected returns.</td>
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<tr>
<td>Control Problem</td>
<td>A situation of divergence of interests between the membership and their representative board of directors (principal) and management (agent). Since the information provided and external pressures exerted by publicly-traded equity instruments (stock market) is not present in cooperatives, and the members serving on the Board of Directors may have little or no experience in effectively exercising control, governance bodies operate with a handicap.</td>
</tr>
<tr>
<td>Influence Costs Problem</td>
<td>A situation where members attempt to influence collective decision-making to their own advantage. As shares in most cooperatives are neither transferable nor tradable, members that cannot exit the cooperative are left with only the voice option (HIRSCHMAN, 1970). Especially if the cooperative is engaged in a wide range of activities, influence activities complicate collective decision-making, and lead to wrong decisions or no decisions at all.</td>
</tr>
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Source: own presentation
Since the early 1990s, property rights problems have given rise to experimentation with innovative cooperative models. CHADDAD and COOK (2004) organized these models into a continuum delimited by the traditional cooperative on the one hand, and the investor-oriented firm on the other. These authors argue that cooperative models can be distinguished by how ownership rights are defined and assigned to the major stakeholders of the firm. Between the polar forms of the traditional agricultural cooperative and the investor-oriented firm, CHADDAD and COOK identify five non-traditional cooperative models: proportional investment cooperatives, member-investor cooperatives, new generation cooperatives, cooperatives with capital-seeking entities, and investor-share cooperatives. Each successive cooperative model in this typology relaxes one or more property rights of traditional cooperatives, up to cooperative conversion into the for-profit investor-oriented status. For example, setting member investment necessarily proportional to the usage of the cooperative’s services transforms the traditional cooperative into the so-called proportional investment cooperative. When benefits are distributed not only to patrons but also to investors, a member-investor cooperative emerges. A crucial distinction is also made when ownership rights are restricted to member-patrons as opposed to being distributed to non-member-patrons as well. As more and more property rights of traditional cooperatives are modified, the organization approaches the for-profit investor-oriented ownership structure. When these innovative cooperative models do not go far enough to prevent the property rights problems from persisting, there remains the ‘exit’ option (COOK and BURRESS, 2009). This option may mean liquidation, as well as conversion of cooperatives into investor-oriented for-profit firms (CHADDAD and COOK, 2004), or cooperative mergers with investor-oriented for-profit firms where former cooperative members lose majority residual control rights (COOK and BURRESS, 2009).

It must be mentioned however, that there exists no straightforward way of linking the specific property rights problems to a specific cooperative model in CHADDAD and COOK’s (2004) continuum. Each cooperative model encompasses various organizational innovations that are adopted to address more than one of the five property rights problems. These innovations pursue two concurrent goals: to provide cooperative members with strong incentives to supply their cooperative with risk capital, and to facilitate collective decision-making. It is possible, however, to discern that the first three property rights problems justify the first goal, while the remaining two explain the second (cf. Table 1).

The property rights problems shed new light on the issue of whether cooperatives are hybrids of market and hierarchic organization. The new institutional economics literature has paid much attention to hybrids generally (cf. WILLIAMSON, 1991; MENARD, 2004; BONUS, 1986). The dominant position seems to be that cooperatives do constitute a hybrid between market and hierarchy, despite certain dissenting views (cf. VALENTINOV and FRITZSCH, 2007). BONUS (1986) defined cooperatives as hybrids because they combine the benefits of the so-called independent and collective organization, while MENARD (2004) argued that cooperatives exhibit the fundamental regularities of hybrids, such as resource pooling, contracting, and competing. The hybrid view of cooperatives, however, does not follow from CHADDAD and COOK’s (2004) continuum of cooperative models for three reasons. First, for CHADDAD and COOK (ibid), the cooperative and the hierarchical investor-owned organization constitute the continuum’s polar cases. Being a polar case, the cooperative organization cannot be considered a hybrid. Second, CHADDAD and COOK’s (ibid) continuum does not encompass the market organization as a distinct governance structure, and therefore cannot be reconciled with the view of cooperatives as hybrids between market and hierarchy. Finally, CHADDAD and COOK’s (ibid) continuum endorses the perception of cooperative property rights being ill-defined. Given that both market and hierarchy rest upon well-defined property right structures, it does not become clear how the mixture of well-defined property right structures can generate a new property rights structure that is ill-defined.

3 The Institutionalist Reassessment

3.1 For-profit Firms, Cooperatives, and the Institutionalist Dichotomy

The institutionalist dichotomy occupies a central place in the writings of many institutionalists, and is indeed, “a basic analytical tool of institutional economics,” (MUNKIRS, 1988: 1035). In VELEBEN’S work, it involves the contrast between pecuniary and industrial behavior; AYRES emphasized the contrast between ceremonies and technology; and FAGG FOSTER dichotomized ceremonial and instrumental behavior.
For the present context, the significance of the institutionalist dichotomy is in questioning the ability of the pecuniary economic system, embodied in investor-oriented for-profit firms, to effectively enhance the quality of social life, or in other words, to attain instrumental value. Instrumental value refers to “usefulness seen from the point of view of generically human” (VEBLEN, 1994: 61), technological continuum, and increasing the meaning of social experience (DEWEY). TOOL (2001: 293) succinctly captured the meaning of instrumental value in the social value principle that provides for “the continuity of human life and the non-invidious recreation of community through the instrumental use of knowledge.”

To VEBLEN, the central reason for advancing the dichotomy is the orientation of business behavior towards differential advantage rather than towards the common interest of the community. Accordingly, the Veblenian version of the dichotomy highlights the conflictual nature of the market. The dichotomy illuminates the market as an arena for the conflict-laden pursuit of differential advantage by investor-oriented firms. In contrast, cooperatives present an institutional arrangement through which economic actors pursue their common interests. Cooperatives are necessary because, according to the dichotomy, common interests cannot be realized through the conflictual ways inherent to the pecuniary for-profit economy. The economic meaning of cooperatives is found in transcending the conflictual nature of the pecuniary for-profit economy in order to attain those improvements in the quality of community life (i.e., elements of instrumental value) that are precluded by the logic of narrow pecuniary self-interest. To be sure, the goals of specific cooperatives may be more particularistic than the interests of the community as a whole, yet these goals are broader than allowed by the logic of individual pecuniary self-interest, and accordingly more permissive of improvements in the quality of community life.

The ability of cooperatives to promote the common interests of members and to attain the respective instrumental value is evidently explained by their peculiar property rights structure. The specification of member property rights in cooperatives indeed falls short of the new institutional economics ideal of full private ownership. However, given that the conflictual logic of the for-profit economy is predicated on the institution of private ownership, it is precisely the attenuation of private ownership that enables cooperatives to transcend that conflictual logic. Indeed, from the perspective of instrumental value, attenuation of property rights is an advantage. In The Theory of Economic Progress, AYRES (1978) argued that the attenuation of property rights in the form of separation of ownership and control in large corporations exemplifies a more general process of the “significant and far-reaching displacement of ceremonial by technological functions” (ibid: 200). To AYRES, the attenuation of the property rights in question had an enabling effect on the development of instrumental large-scale technology. Cooperatives likewise present a case of property rights attenuation that is undertaken for the purpose of realizing instrumental value located in the commonness of member interests.

The dynamic dimension of this argument can be discerned from the fact that the specific constellations of common stakeholder interests are determined by the evolutionary patterns of broader society. Generally, it is reasonable to expect that the increase of societal complexity must be reflected in the growing complexity and diversity of common interest constellations. The recent popularity of a new cooperative variety, multi-stakeholder cooperatives, is illustrative in this regard (cf. MÜNKNER, 2004). According to MÜNKNER (ibid), the broader societal context of these cooperatives is marked by overarching problems such as mass unemployment, social exclusion, aging, unaffordable social security, and others. MÜNKNER argues that even though the members of these cooperatives come from different societal and occupational segments, they nevertheless share a number of common interests dictated by the broader societal evolution.

3.2 Revisiting the Cooperative Property Rights Problems

If the attenuation of property rights enables the attainment of instrumental value, why are cooperative property rights sometimes perceived as being problematic? What is the conceptual link between instrumental value envisioned by cooperatives and their property rights problems? This link is arguably found in the lacking or missing commonness (i.e., homogeneity) of actual member interests. Indeed, the ultimate meaning of member heterogeneity as the basic reason for the property rights problems boils down to member interests being (perceived as) divergent rather than common. Absent of common interests, instrumental value cannot be defined, let alone attained. In this case, cooperative members may indeed perceive cooperative property rights as a handicap that complicates the competitive survival of their cooperatives.
That cooperative property rights are better suited to common rather than divergent member interests is perhaps self-evident. A more subtle point that emerges from the proposed institutionalist dichotomy perspective, is that the members' perception of the commonness of their interests is interrelated with the way they position their cooperatives in the broader pecuniary system. On the one extreme, cooperatives may be seen as institutions yielding useful services that cannot be reasonably procured from the pecuniary system, i.e., cooperatives are aimed at attaining instrumental value. On the other extreme, cooperatives may be seen purely as instruments in the competitive struggle which is itself part and parcel of the pecuniary system. In the latter case, cooperatives are supposed to replicate the pecuniary behavior of investor-oriented firms, which is, as Veblen made clear, inherently conflict-laden. Theoretically, it may be possible for the members to precisely define their common interests in their cooperative, which is supposed to replicate the pecuniary behavior of investor-oriented firms. Yet pecuniary behavior is a social habit that projects itself onto activities that are not necessarily originally intended to be arenas for pecuniary behavior. Thus, the pecuniary formulation of cooperative goals with respect to the outside pecuniary system is likely to project itself onto the character of inside relationships among cooperative members, making these relationships conflictual and non-cooperative. Importantly, this projection occurs in the form of the so-called institutional drift, i.e., imperceptibly for the members (cf. McCormick, 2006). While the common interests of members may be fairly precisely defined in the early stages of their cooperatives, the evolutionary consequence of the institutional drift is that members may become disappointed over time.

Accordingly, it is hardly accidental that the cooperative property rights problems arose primarily in connection with competitive pressures that, in essence, are pressures of pecuniary culture. Winning a competitive struggle is a basic pecuniary value that, as Veblen explained, is poles apart from instrumental value. Cooperatives seeking the pecuniary value are impregnated with pecuniary culture. Veblen (1957) devoted a book to discussing how pecuniary culture impregnates and corrupts higher educational institutions that are instrumental by original intent; cooperatives are evidently another example of the same general phenomenon.

These considerations make it clear that cooperative property rights problems, rather than being endemic to cooperatives per se, emerge at a particular interface between them and the embedding pecuniary culture, and this particular interface is by no means to be taken as natural or definitive. What makes (agricultural) cooperatives particularly sensitive to this interface is that they have several identities that are well-developed in the scholarly literature. Cooperative scholars have viewed cooperatives as: a) service agencies (or forms of vertical integration of member-farms); b) independent firms separate from member-farms; and c) coalitions of member-farms. The service agency approach, founded by Nourse (1922) and Emelianoff (1942), locates cooperative goals exclusively in providing useful services to members and rejects any pecuniary acquisitive goals; the 'cooperative as a firm' approach, founded by Helmerger and Hoos (1962), postulates their essential behavioral similarity to investor-oriented firms. Since property rights problems arise in response to pecuniary competitive pressures, cooperatives experiencing these problems are acting as firms rather than service agencies. The effect of pecuniary culture has been to transform actual cooperatives from service agencies into firms. Acting as firms, they naturally gravitate toward the ideal of fully delineated private property rights that constitute an investor-oriented for-profit organization.

The institutionalist dichotomy highlights the general incongruence between instrumental and ceremonial pecuniary value; however, it is specifically geared to demonstrating the difficulties of achieving instrumental value through pecuniary institutions. The case of cooperative property rights problems manifests this incongruence from an opposite angle: it highlights the difficulties of attaining the pecuniary value of competitive survival through the (originally) instrumental institution of cooperatives. Thus, through the possibility of mismatches between the types of institutions utilized and values pursued, the institutionalist dichotomy engenders a stylized variety of institutional choice framework which is developed in the next section.

3.3 Towards an Institutional Choice Framework

The key implication for institutional choice that emerges from the preceding discussion is that institutional structure will be satisfactory to economic actors if pecuniary institutions are used to attain pecuniary value, and instrumental institutions to attain instrumental value. Institutional structure will be dissatisfactory if instrumental values are pursued by pecuniary
institutions, or pecuniary values by instrumental institutions. To be sure, the theory of instrumental value postulates the general superiority of instrumental value over pecuniary value (TOOL, 2001; HAYDEN, 2006). This superiority, however, by no means indicates the expediency of outright replacement of the latter with the former. According to TOOL (2001) and FAGG FOSTER (1981), progressive institutional change must be minimally disruptive with respect to the existing institutional structure; this requirement precludes such a replacement. Nor are the important civilizational advantages of pecuniary valuation to be downplayed; they are reflected in recognizing a satisfactory situation of pecuniary institutions being utilized for the attainment of pecuniary value. Yet this satisfactory situation is accompanied by the abovementioned dissatisfactory state of failure of pecuniary institutions to attain instrumental value, as suggested by the institutionalist dichotomy. It is this dissatisfactory state that provides continuing incentives to move from pecuniary to instrumental value, and accordingly from pecuniary to instrumental institutions (see Table 2).

How can this broad societal institutional choice framework be applied to the choice of cooperative organizational forms in the light of cooperative property rights problems? Operationally, these problems stem from the heterogeneity of member interests, or in other words, from members’ interests being divergent rather than common. At the same time, the commonness of interests does have an important significance for the instrumental value theory. Indeed, VEBLEN’S (1994: 61) references to the “usefulness as seen from the point of view of generically human,” the Ayresian idea of technological continuum, and the Deweyian criterion of increasing the meaning of experience, all assume instrumental value to be in the common interest of humanity. It is, by contrast, ceremonial pecuniary value that establishes invidious social barriers and interest divergence.

Thus, instrumental institutions (such as cooperatives) may be operationalized in terms of the significant commonality of stakeholder interests enshrined in their organizational structures, while pecuniary institutions (investor-oriented firms) are embedded in organizational structures that enshrine interest divergence. For VEBLEN (1958: 20), the institutionalist dichotomy is reflected in the divergence of the interests of businessmen from those of the broader community. On the other hand, instrumental or pecuniary value orientation refers to the interests that are actually pursued by economic actors. Such interests may be common (corresponding to instrumental value), or divergent (corresponding to pecuniary value). The actual interests pursued may or may not correspond to the interests enshrined in formal organizational structures, with the lack of this correspondence being indicative of cooperative property rights problems.

Table 3 presents an application of the institutional choice framework depicted in Table 2 to the choice

Table 2. Satisfactory and dissatisfactory institutional choice

<table>
<thead>
<tr>
<th>Value</th>
<th>Institutions</th>
<th>Pecuniary (ceremonial)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Instrumental</td>
<td>Satisfactory use of instrumental institutions (such as cooperatives)</td>
</tr>
<tr>
<td></td>
<td>Pecuniary (ceremonial)</td>
<td>Institutionalist dichotomy from the inverse perspective (instrumental institutions fail to attain pecuniary value)</td>
</tr>
</tbody>
</table>

Source: own presentation

Table 3. Application to institutional choice between cooperatives and investor-oriented firms

<table>
<thead>
<tr>
<th>Actual stakeholder interests</th>
<th>Common</th>
<th>Divergent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common</td>
<td>Satisfactory use of cooperative organization</td>
<td>Cooperative organization is missing (missing supply of goods and services that would otherwise be provided by this organization)</td>
</tr>
<tr>
<td>Divergent</td>
<td>Cooperative organization is dissatisfactory (ill-defined property rights in cooperatives)</td>
<td>Satisfactory use of for-profit investor-oriented organization</td>
</tr>
</tbody>
</table>

Source: own presentation
between cooperatives and investor-oriented firms. The traditional cooperative model, as a point of departure for CHADDAD and COOK’s (2004) typology, is well-suited to situations where members have common economic interests regarding the operation of their cooperative. Ill-defined property rights issues arise when members’ interests become more divergent than foreseen by this model. CHADDAD and COOK (2004) argue that in these cases, cooperatives can select among a continuum of organizational models allowing for the increasing member interest divergence. The limiting case of this continuum is the for-profit firm, which corresponds to the situation of maximum interest divergence epitomized in the full separation between owners and customers. Thus, the more divergent the members’ interests are, the closer the satisfactory cooperative model is to the institution of the investor-oriented firm. The degree of satisfaction of cooperative models (understood as the absence of ill-defined property rights problems) is determined by the correspondence between actual extent of commonness of member interests and the extent enshrined in the respective cooperative model.

The upshot of the proposed institutional choice framework for understanding the cooperative property rights problems is that these problems are relative to the correspondence between the actual extent of the commonness of stakeholder interests and the extent enshrined in the respective organizational form. Thus, contrary to the new institutional economics arguments, deviations of property rights structures from the ideal of fully delineated private ownership are no longer seen as necessarily undermining the economic legitimacy of these structures. Moreover, the framework shows that the cooperative property rights problems are interrelated with the twin problem of the investor-oriented firms’ failure to realize instrumental value that is attainable through cooperative organization. Both of these twin problems are variations on the same theme of the institutionalist dichotomy between instrumental and ceremonial value.

4 Conclusions

The property rights of agricultural cooperatives are in apparent contrast with the critical institutionalist perspective on private ownership. Yet this paper has demonstrated these problems to be consistent with the institutionalist dichotomy. Indeed, they manifest this dichotomy in much the same way as do the Veblenian-Ayresian concerns about the ceremonial nature of private ownership. The proposed framework of institutional choice between cooperative and for-profit investor-oriented organization reveals the logical structure of the dichotomy through differentiation between institutions and values that these institutions pursue. The Veblenian-Ayresian concerns highlighted the difficulties of attaining instrumental value through pecuniary institutions; the property rights problems of agricultural cooperatives reflect the inverse problem of attaining the pecuniary value of competitive survival through institutions that are essentially instrumental.

The basic intent of the institutionalist dichotomy is to draw attention to the regressive ceremonial elements of the social structure and to contrast them with instrumental societal problem-solving. Using the dichotomy as a guide for thinking thus requires careful differentiation between ceremonial and instrumental elements. This paper has developed an approach for differentiating between these in the institution of private ownership embodied in for-profit investor-oriented organization. The institutionalist dichotomy has been shown to explicitly acknowledge the potentially instrumental value of this organization within a certain range; yet it likewise incorporates both the Veblenian-Ayresian critique and the property rights problems of agricultural cooperatives. The key normative message of the dichotomy thus becomes not the displacement of ceremonial value by instrumental value, but the elimination of the felt discrepancy between the two, while preserving the continuity of the institutional structure. It is arguably along these lines that institutional change can be peaceful, cooperative, and truly progressive.

Acknowledgment

The authors are grateful to two anonymous reviewers for their helpful comments. The first author gratefully acknowledges the financial support from the Volkswagen Foundation.

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