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“Co-operative identity”: A theoretical concept for economic analysis of practical co-operation dynamics¹

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Abstract

Farmers' problems and co-ordination of agricultural activities cannot be solved simply by EU and/or government support, or by private market co-ordination institutions. Emerging producer groups and co-operatives seem vital in achieving bargaining power. Theoretically, and according to Western European (Dutch, Danish etc.) and US practical experience, one of the major important private institutions that can strengthen producers and help co-ordinate (agricultural) chains is the co-operative entity. To fulfill the basic co-operative aims and to compete in a more market-oriented environment (e.g. more liberal agricultural policies, opening European and world market, etc.) they will initiate new marketing strategies. To implement such new marketing strategies, co-ops have to collect more risk capital and in Western European agricultural co-operatives this is currently precipitating some fundamental financial and organisational changes. To retain the basic co-operative character, they are undertaking internal and external organisational changes, which in a number of cases will create so-called new co-operative structures/models. In this paper the “co-operative identity” concept (meaning the aims and functions of co-operatives, as well as the so-termed co-operative principles) is proposed to serve as a general theoretical background to evaluate economically the flexibility of (agricultural) co-operation. Also proposed is a new, interdisciplinary research focus (including comprehensive theoretical overview). This new focus examines the substance of co-operation and emphasises the importance of combining insights across the social sciences. It uses the results and common findings of economics, law, marketing, financing, organisational studies, management sciences (“hard” sciences), and also some elements of philosophy, psychology, sociology etc. (“soft” disciplines). Also recommended are some suggestions for further comparative research on the “co-operative identity”. This is carried out according to each country and different branches and sectors to observe the substance and dynamics of co-operation from different economic and non-economic aspects.

Key words

Co-operation, co-operative identity, co-operative principles, strategy, marketing, co-ordination, vertical integration, agriculture

1. Introduction and background

Farmers' and co-ordination of agricultural activities cannot be solved simply by EU and/or government support, private-market co-ordination institutions, like *emerging producers' groups and co-operatives seem to be vital in establishing bargaining power* against processors, retail chains etc. Theoretically, and according to Western European (Dutch, Danish etc.) and US practical experience, one of the main important private institutions which can strengthen producers and help co-ordinate (agricultural) chains is the co-operative entity. Agricultural co-operatives used to be considered as the *classical form of co-ordination of varied and independent farmers*. Co-ops were founded in order to protect members against the large commercial and/or the often monopolistic or oligopolistic industrial companies. For

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example, in Holland and Denmark these co-operatives have emerged through a *voluntary base* (Meulenbergh, 2000). They have a so-called “*dual nature*” toward the market: they are market oriented, but the surplus – made by the co-operative – goes to the farmer members. After deducting the co-operatives operational costs and funds for reserves, the surplus is distributed in proportion to their product amount delivered/paid to/bought from the co-operative.

In a market economy, generally the main economic aim of the (agricultural) co-operative is to *increase the income of its members*. However, other advantages are that co-ops can *reduce production costs and also decrease and internalize transaction (information) costs*, providing more continual information on consumer demand. Co-operatives can also *lower both economic and technological uncertainties and therefore decrease transaction costs* (Harte, 1997; Hendrikse – Verman, 2001b; Ollila – Nilsson, 1997; Royer, 1999; Szabó, 2002; Szabó – Fertő, 2004a,b).

This paper’s *basic research problem* is the fact that the International Co-operative Alliance (ICA) Statement on Co-operative Identity (ICA, 1995) alone is *not a sufficient to grasp the substance of (agricultural) co-operation*, at least not from an economic viewpoint. ICA has – through member organisations – about 800,000,000 members and this number underlines the importance of the statement. In some countries this “declaration” is the basis for legislations and/or for distributing different types of subsidies, tax redemptions etc.

It is also significant in terms of public opinion because potential co-operative members form their view about co-operatives based on the widely known ICA statement (especially the principle of one-member – one vote). Therefore one could conclude that it is uncompetitive, inflexible and ideologically influenced and thus irrelevant to practical (economic) life. In turn, these perceptions *highly influence the public view toward co-operatives’ economic justification and competitiveness*.

In this paper, a new “*co-operative identity*” *concept will be applied* to carry out *dynamic* and (perhaps later) *comparative analysis of* (agricultural) co-operatives. The concept of “co-operative identity” entails a *definition, and the aims and functions of co-operatives*. It also entails the so-termed *co-operative principles*, and serves as a general theoretical background for the economic evaluation of agricultural co-operation’s flexibility. To develop the concept of “co-operative identity,” as an empirical basis we have used trends in agricultural *marketing (dairy) co-operatives*, which adequately represent the processes occurring in the European Union. Empirical evidence supporting the theoretical results are based on examining agricultural marketing and processing co-operatives in the dairy supply chain. These investigations focus on dairy co-operatives’ response to recent changes in the business environment.

This paper does not deal with other major market co-ordinating institutions, like marketing boards, agreements etc. (Lehota, 2000) and with the description of the co-operative development of transition economies. This is for two reasons. first, the paper describes the concept as an analytical and methodological tool with which it is possible to study co-operatives in a dynamic way. Later a major extension of the current study could entail comparative analysis. Second, at this stage, the author did not wish to deal with co-operatives in the transition countries. This was not only because because it is hard to collect reliable data on them, but also because they are mostly production type co-operatives which differ largely from *promotional* marketing type co-operatives which are the present study’s subject.

To develop the concept and achieve the above mentioned goal the following were *essential*:

- research literature on co-operatives and co-operation, agricultural marketing and agribusiness,
- collecting secondary (statistical) data,
- interviews, discussions with experts on questions and problems on co-operative theory and practice,
- field trips and meetings with people working in the field,
- case study analyses.

The remainder of the *paper is organized as follows*: In the second section the author outlines the concept of “co-operative identity”. In *Section 3* the author analyses the main links between various elements of the “co-operative identity”. In *Section 4* the author discusses the limitations of traditional (marketing) co-operatives’ and new agricultural models’ strategic changes. In the last section are presented conclusions and some suggestions for further scientific research on co-operation and “co-operative identity”.

2. “Co-operative identity” – a concept for dynamic and comparative analysis

2.1. The elements of the “co-operative identity” concept

Zwanenberg (1995) presented the author with the idea of examining co-operative aims, principles and co-operatives’ needs according to each agriculture sector. This contrasted with those who had sought to identify a general set of co-operative principles (ICA, 1995). This was a starting-point in the author’s attempts to develop a new concept of “co-operative identity” (Szabó, 1995, 1997).

The *elements of “co-operative identity”* are: the *definition, aims (purposes) and functions (roles)* of co-operative(s), and also *co-operative principles*, also a major identity component. At first sight this concept seems similar to the new International Co-operative Alliance (ICA) Statement on Co-operative Identity (ICA, 1995), which “...includes a definition of co-operatives, a listing of the movement’s key values, and a revised set of principles intended to guide co-operative organizations at the beginning of the twenty-first century” (MacPherson, 1994: p. 8).

However, there are some *important differences between the two concepts*. On the one hand, for the ICA it is necessary to underline the sociological and ideological aspects. All the values and principles, even the terms used (value, movement, guide) to describe the identity represent a kind of *ideological backdrop behind the ICA co-operative concept, which underline the co-operatives’ social characteristics* and social aims.

On the other hand, other than definition and principles, *the first concept contains the co-operative identity’s additional elements*, meaning its purposes (aims) and functions (roles). These elements are more relevant toward explaining the economic substance of (agricultural) co-operation. Changes in practical economic life regarding (dairy) co-operatives can be also discussed using these terms.

Secondly, to undertake an analysis of the dynamics of practical co-operative life and development, the co-operatives' *aims (purposes) must be distinguished from the functions (roles)*. With a solid co-operative identity, the initial main “co-operative” aims are largely fixed but, to fulfill their basic tasks, the *co-operative functions may alter* over time.

Regarding the ICA statement, only very general aims can be found (including in the definition) and there is nothing written about the functions which are subject to change over time. Therefore, from an economic viewpoint, we have to conclude that the *ICA concept is not a sufficient basis for grasping co-operation substance*.

2.2. Definitions of the co-operative

The theory and legislation on co-operatives contain hundreds of definitions that vary, sometimes fundamentally. The definitions' authors and “fathers” sometimes consider their “child” as a short summary of the co-operative identity. In fact, they are adequate to determine co-operation's substance, particularly from an economic viewpoint. However, it is necessary to define what is meant by the term “co-operative”.

In this study, as a starting point, we use the *basic American co-operative concept* which reflects three basic criteria: “A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use” (Barton, 1989a, p.1). The above definition also illustrates the main points of the Dutch and Danish approach.

There are three main links between the member and the co-operative: the product, the capital, and the democratic power structure. The ‘economic’ co-operative principles (see later) are based on the previously mentioned three main links, as they were formulated based on the elements linking the co-operative's commercial activity with its members.

In comparing the above definition, it is useful to recall the *definition of a co-operative included in the ICA Statement* which stresses the association's basic identity including social and cultural aims: “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” (ICA, 1995).

2.3. Co-operative aims and functions

Circumstances will determine (at least in a working market economy) which objectives arise from an economic environment. Basically two main groups can be distinguished:

1. economic and
2. social aims.

In practice and in the pertinent literature, there are other basic cultural, religious, and political aims, but they are not relevant to our study. To appreciate the co-operative identity from an economic/capitalist environment perspective, crucially important are two groups of aims. As stated above, the co-operative's general economic aim is to *increase its members' income*.

It is vitally important to focus on co-operatives' long-term viability. In order to further its members' interests, real (mainly economic) incentives are essential for establishing co-operatives at the basic level and, through regional organisations (in some cases) organising them into centres. Doing this will provide a counterweight helping the producers-members

against the other players on the chain. Very good examples of “practical” agricultural co-operation are the Dutch and Danish systems which exemplify the need for establishing a viable and flexible co-operative system.

However, the co-operative is a *partial/hybrid form of vertical integration*, meaning farmers have a high degree of economic independence: “Thus, it is possible to reduce transaction costs and uncertainty through the cooperative and maintain the entrepreneurial incentives through the market at the same time.” (Ollila, 1994: 88). According to the pertinent literature (Cook, 1995; van Dijk, 1997; van Bekkum and van Dijk, 1997; Meulenbergh, 1997; Nilsson, 1997, 1998; Ollila, 1989, 1994; Royer, 1999 etc.) the *main incentives* for establishing *co-operatives as a form of vertical integration* are the following.

First, in the long term co-operatives traditionally *create secure markets and provide access to them*, therefore *protecting independent farmers* against large commercial and/or industrial companies. They can also provide *services that are either unavailable or very expensive*.

Second, co-operatives bolster *countervailing power* and beyond certain economies of scale act as a *competitive yardstick* for non-co-operative, conventional firms (CF). This provides the whole sector with more *influence over markets and prices*.

Third, in some cases co-operatives *increase technological and market efficiency* and undertake activities with a *higher added value*.

Fourth, co-operatives can *decrease and internalise transaction (information) costs*, allowing a better flow of information for consumer demand. This means a closer consumer/farmer relationship creating a unified decision making process between two or more levels in the marketing channel. The co-operative can also *alleviate both economic and technological insecurity*, therefore decreasing transaction costs.

Finally, co-operatives can *augment members’ income* by lowering transaction and production costs. This is done by *reimbursing members with a surplus members made at another level* of the marketing channel.

Other than economic aims, there are *several non-economic reasons* which are potentially important for the successful development of co-operatives (Hakelius, 1996). First, co-operatives used to be considered as organised trusts, which can determine the success or failure of a given co-operative: “Trust (between the member and co-operative,) is a major co-operative advantage” (Spear, 1999). Second, the social and informal members network (or potential members) is also a significant determining factor in decreasing transaction costs and in establishing and subsequently in running a co-operative. Enhanced knowledge and mutual trust among members (Røkholt, 1999) is vital to efficient management of human relations. In his seminal book, Stryjan (1989) deals with the organisational consequences of different membership and ownership issues, and he also emphasises the human or “soft” approach for organising activities and thus organisations.

As mentioned earlier, in order to grasp and explain the dynamic changes of practical co-operation, the co-operatives’ *aims (purposes) must be distinguished from the functions (roles)*. In a clear *co-operative identity*, the initial main “*co-operative*” *aims* (taking into account that the country, branch, and sector in which they are operating remains unchanged) are largely *fixed*. However, to fulfill their basic task, the co-operative’s *functions may alter*

over time. For example, in the past Dutch dairy co-operatives’ had price leadership as a function. However, due to changes in the economic and policy environment, it had to assume market leadership to maintain its principal aim of increasing farmers’ income.

2.4. Significance and different sets of the co-operative principles

Although the co-operative identity has not only included principles, (co-operative and co-operations definition(s), aims, functions, etc.) for most co-operators the so-called *co-operative principles are the cornerstone for evaluating the co-operative’s validity* as the principles prove whether a co-operative is bona fide or not. It is necessary to distinguish the principles from the policies and practices of co-operatives.

According to Barton (1989b: p.23) *the following terms can be distinguished:*

“A principle is a governing law of conduct, a general or fundamental truth, a comprehensive or fundamental law”.

“A policy is a wise or expedient rule of conduct or management. It is not a universal, unchanging truth but a highly recommended course of action, given the situation.”

“A practice is a usual method, customary habit, action, or convention; a frequent or usual action. Substantial flexibility exists ... respecting the cooperative definition, principles and policies.”

Barton gives a wider explanation for the terms outlined above, but these shorter definitions are appropriate for our purpose. Amongst other points, Barton also states in his (quoted) paper that the defined co-operative principles

“...preserve the essential objectives and uniqueness of the cooperative form of business” (Barton, 1989b: p.23). From this observation it is clear that the *co-operative principles are essential to grasp the co-operative identity*, and this opinion is shared by other authors (Davis, 1995; MacPherson, 1994; Røkholt, 1999 etc.) as well.

According to Craig and Saxena (1984): “The strength of the principles has been that they are stated in a simple, straight forward and easily understood way. This is an important characteristic. Other characteristics include internal consistency and logic applicability to organizations irrespective of the external environment in which function; and long term relevance.” (Craig – Saxena, 1984: VI)

According to Barton (1989b) there are *four distinctive principle classes* which more or less overlap with ICA principles (see later) and also with each other. These main groups are the *Rochdale*, the *Traditional*, the *Proportional* and the *Contemporary* class of co-operative principles. However, our main aim is not to examine all the co-operative principles; details of these four classes can be found in the above cited book (Barton, 1989b: pp. 26-30).

The *Proportionality class and its elements* are the most important, since this class is widely used today widely and its principles for co-operatives agree with Barton (1989b: p. 27):

1. “Voting is by members in proportion to patronage
2. Equity is provided by patrons in proportion to patronage
3. Net income is distributed to patrons as patronage refunds on a cost basis.”

The *Contemporary set* is almost identical, but differs from the previous as the proportionality basis is not stressed in the first and is absent in the second point.

The performance or proportionality concept means, according to Diepenbeek (1989: p.38), that “...in the distribution of cost and proceeds of the cooperative amongst the members... an economic key is used, namely a distribution according to the economic principle of proportionality – at which the social key of personal need or social claims in redistribution of income is rejected.”

The proportionality concept (see Barton, 1989b: p. 31) can be considered a suitable starting point for analysing the co-operative identity and developments currently happening in Europe: for example, Dutch “practical” agricultural co-operation (van Diepenbeek, 1989:38; van Dijk, 1994/1995).

Reflecting recent international changes in economic and social life, the ICA had established a working group (Böök, 1989, 1992) to *review the current basic values and principles of co-operation*. The new statement with the new principles was made in Manchester in September 1995 (ICA 1995). The seven principles, which have been basically accepted and implemented in most countries, are the following:

1. Voluntary and Open Membership
2. Democratic Control by Members
3. Members Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for Community

Apart from the co-operative principles, in order to exploit economic (and non-economic) advantages, the *marketing co-operatives use long, medium and short-term contracts* to secure raw materials and to manage the whole marketing chain (Hendrikse – Veerman, 2001a). The *co-operative*, in the modern sense, *is a hybrid formula*, because the common property means the members sign a special “multilateral contract”. The statute or bylaw constitute formal legal guarantees that the co-operative will never act against the members and that members will enjoy their advantages and fulfill their duties. The bylaws also defend third parties against the co-operative, making it possible to sign contracts and obtain loans and credits in the name of the co-operative. “The cooperative has, in a way, both markets and hierarchies within the same organisation” (Ollila, 1994:88).

The co-operative’s organisational form and decision-making (control) mechanism and the so-called co-operative principles (ICA, 1995; Hakelius, 1996; Røkholt, 1999) can be considered as formal legal bonds (guarantees) of trust between the member and co-operative. Hence the so-called delay problem (Hendrikse – Veerman, 2001b; Karantininis – Nielsen, 2004; Royer 1999; Staatz, 1984) usually is not as significant as in other contractual relations between a farmer and Investment Oriented Firms (IOF).

Beyond the co-operative’s economic advantages, there are also some *non-economic* advantages stemming from *member relations and co-operative principles*. A co-operative’s major advantages are based on the closer and more informal relationship among the members and between members and co-operative. Røkholt (1999, 2000) indicates 4 types of member loyalty: power based, habit based, tradition based and solidarity based. These constitute

the co-operative’s foundation. The co-operative’s basic rationale represents a comparative advantage allowing strategies and the exploitation of strengths rather than the elimination of co-operative weaknesses such as transaction cost considerations. Moreover, the personal relationships network among members, which are solidified by co-operative principles, entail important relationships in terms of the co-operative rationale. (Røkholt 1999).

However, in terms of a flexible business strategy, one has to keep in mind that *co-operative principles* coupled with the democratic decision-making process were/are sometimes *obstacles*, especially in acquiring risk capital for activities with higher added value. Moreover, the basic co-operative principle of *1 member – 1 vote* is not always economically sound (e.g. in marketing type of co-operatives). For example, in a dairy co-op, a major milk producer assumes greater risk than a minor one, and the co-op’s activity impacts more on a member who is a major milk supplier and on his/her income. Moreover, *limited if any interest is paid* on capital invested in the co-operative (e.g. co-operative shares) and this hinders the *financial position* and potential for undertaking new (marketing) strategies.

For example, *a multiple voting system* could be tied to a proportionality principle, and sensible limitation of votes per member could *help co-operatives maintain more regular members and also to gain more capital from members*. A recent feature of *New Generation* co-ops is up-front investments tied to members’ projected patronage.

In the following section we are going to analyse the “co-operative identity’s” main links between its various elements.

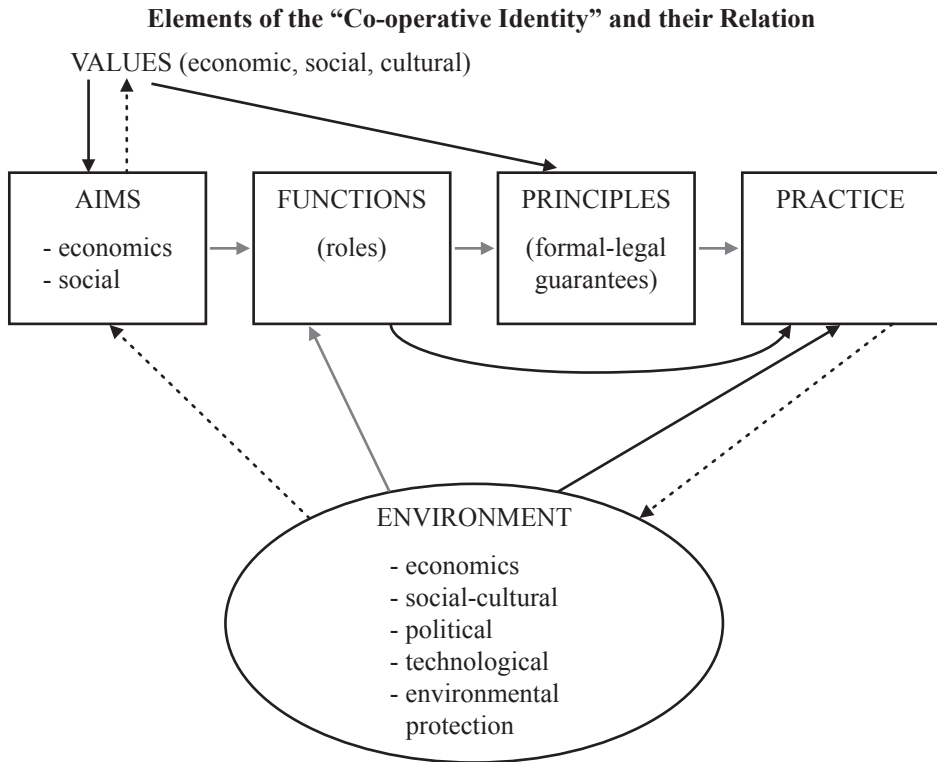
3. Links between the “co-operative identity’s” elements.

After analysing the “co-operative identity’s” concept and elements, let us examine how these are connected in real life. It is also necessary to emphasise the main “dangers” awaiting co-operatives without a strong and clear identity. In Figure 1 are the central relationships between the elements of the “co-operative identity” and also their relationship with the “mental” and the “real” environment.

In every society there is naturally a broad system of “mental” values, which is the basis for every social action, including economic activity. These types of values can be divided into a number of classes. In Figure 1 are the three major value groups: the economic, the social and the cultural. These are the foundation for a consistent system of social thinking, which is indispensable for initiating economic activity. In Figure 1 the thin black arrow in the upper part represents those values’ influence on the basic co-operative AIMS. Naturally, these depend on the importance of each value in a society. If there is a consistent system of values, it is easier to establish basic and durable co-operatives aims. A good example of this is the Dutch and Danish systems of “practical” agricultural co-operation.

Upheaval, such as a change in a political-economic system, can alter the spiritual basis for co-operation. An example of this is the current transformation process in Eastern and Central Europe. Of course if a “co-operative identity” is strong enough, the aims set by the co-operatives can impact on the (economic, social, cultural, etc.) values, but frequently this is minimal (see broken black arrow in Figure 1). Therefore, co-operatives, like any other organisation in economic or social life, are held in society’s invisible web representing spirituality, social thinking, and ethics. Moreover, recent world trends of globalisation and internationalisation, occurring particularly in Europe, broaden this spiritual environment.

Figure 1



Consequently, in a given society or country, co-operation’s aims usually depend on a broad-based system of values. Aims are multi-faceted and all over the world can be set by co-operators. In Figure 1 in the upper right first square are shown the two major basic aims, the economic and the social ones. This constitutes the starting point for our examination process. As stated above, co-operators in every society can define other aims, such as cultural or religious ones, but co-operative activity’s central purpose should be economic; otherwise co-operatives couldn’t survive without the state. As seen in several countries, if a co-operative has a sound economic and financial basis it can set other aims. However, to remain independent from the state and any other political or economic organisation, it is essential to efficiently organise economic activity. This is particularly true in the case of purely economic co-operatives.

To achieve the main aims members or potential members can define the co-operative’s FUNCTIONS (roles) (see the grey arrow in Figure 1). Since research is designed to examine the “co-operative identity” as a useful concept in terms of economic analysis, it is examined in greater depth when co-operatives are purely economic in nature.

In a normal market economy, the economic purpose can remain the same, even in a changing business and social environment. Obviously, the functions can vary according to changes in the economic, social, political and technological ENVIRONMENT. In Figure 1 (see the grey arrow) one can observe the environmental impact on the co-operative’s (altering) functions.

“Co-operative identity” functions stipulate that co-operative principles can be formulated as formal legal guarantees. A grey arrow indicates the normal situation connections between functions and the co-operative principles.

As shown in Figure 1, the “PRACTICES square” is located at the end of the examination process. The principle types stipulate that co-operatives shape their own and different business practices. The term “practices” denotes daily operations which are indispensable for completing co-operative activity, foremost with economic activity as a basis. It is necessary to stress that, in a strong co-operation system, endowed with a solid “co-operative identity,” the “practices square” is the final “module” toward formulating co-operative activity. In Figure 1, the four grey arrows indicate the normal way of shaping co-operative business.

However, the working environment’s effects on co-operative activity are highly significant. Figure 1 (see the broken black arrow) shows the weak relationship between the environment’s elements and co-operative aims. Naturally, fundamental changes in economic, social, political or technological circumstances can impact on the basic co-operative purposes, but the main line indicates how the various environmental elements can influence co-operative activity through the environment-functions connection (see the grey arrow between them).

It is also true that co-operatives’ day-to-day practices impact on some environmental elements, particularly if co-operatives can create a so-termed countervailing power (Galbraith, 1963; NCR, 1993). However, connections of this type are relatively feeble (see the broken black arrow), but in a few “co-operative countries” there are some exceptions. A common feature of co-operatives with a solid “co-operative identity” is their ability to adapt to new circumstances.

It is also essential to define the “risks” inherent in co-operatives without a solid identity. By thick black arrows Figure 1 indicates three main potential risks. When the previously listed values by-pass the normal way of formulating co-operative activity (as indicated in Figure 1 by the grey arrows), then there is a risk that co-operative principles are established without examining why they constitute indispensable guarantees. This type of misunderstanding is also evident in the new ICA “Statement on the Co-operative Identity” (ICA, 1995). If they neglect practical economic analysis, it leads one to wonder whether it is worth formulating hollow principles. Obviously, it is easy to establish consistent principles based directly on some social, political, cultural values or ethics. But it is doubtful that co-operatives following these principles will remain viable and survive in a fluctuating environment. Therefore it is likely preferable to follow the “grey line” (in Figure 1 see the grey arrows from the “aims square” to the “practices square”) on the formulating co-operative activity path. For example, this is indicated in the Dutch agricultural co-operation system.

Another “high risk” by-pass occurs when the “principles module” isn’t on the above “grey line” and functions directly shape the co-operatives’ day-to-day practices. When this happens, there is no formal-legal guarantee to determine whether an organisation is co-operative or not. Therefore, the co-operative principle or principles are indispensable to determine a co-operative’s authenticity. But one must remember that co-operative principles can alter according to each country, sectors, branches, etc. Thus every kind of co-operation forms its own principles. One possibility, after setting an aim or aims and a function or functions, is to accept and use ICA principles. It is also possible that a particular co-operative can actually use only one principle. An example of this is Dutch agricultural

co-operatives that use the proportionality principle. But these formal-legal guarantees are essential for distinguishing the Investment Oriented Firms (IOF) from the “co-operative type of business”.

Finally, in this volatile world, it is necessary to analyse the third danger facing co-operatives (in Figure 1 see the thick black arrow from the environment to the “practices square.”) Thus there is a context that has absolutely no relationship with “co-operative identity” (concept). It becomes meaningless to describe something as a co-operative when environmental elements, single or multiple, govern and determine the co-operatives’ everyday practices. This is because, when by-passing the normal route (in Figure 1 see the grey arrows from the “aims square” to the “practices square”), it is absolutely impossible to develop and salvage a sound co-operative identity. In a volatile environment, “practices” will react regardless of co-operative aims and functions, and principles will not constitute guarantees or may be totally absent. These types of actions present a serious risk for any type of organisation, but are ultimately fatal for co-operatives. In Figure 1 are the three main risks outlined above, and they are indicated by thick black arrows.

In the following section we are going to analyse the traditional marketing co-operative model’s limitations.

4. The traditional marketing co-operatives’ limitations and emerging new co-operative models

The current agribusiness environment is basically volatile and this prompts us to ask if there are any limitations for co-operatives. We must stress that in a differentiated product markets co-operatives need additional risk capital to compete, and due to their financial structure this is difficult to provide. This fact enlightens us regarding the circumstances where it is better to choose another type of co-ordinating organizational form (governance structure). Recently, there has been a conversion process trend toward conventional firms or other types of producer organisations despite the fact that co-ops can decrease, for example, transaction costs and can also resolve delay problems.

Delays are probably the best known and relevant example in agriculture. A delay: “... arises when one party in contractual relationship seeks to exploit the other party’s vulnerability due to relationship-specific assets” (Royer 1999, p. 49). Because of the above mentioned attributes (like asset specificity, uncertainty, etc.) delays are highly significant in the dairy and fruit-vegetable sectors. Therefore, it is extremely problematic (Staatz 1984, van Bekkum-van Dijk 1997; Kyriakopoulos 2000). After buying or building relationship specific assets, marketing co-operative members are not likely to fear that the other party (e.g. the processor or wholesaler) will change its mind and force them to accept lower prices for their products or subsequently terminate the contract.

In seeking an appropriate governance structure, it is more accurate (according to Hendrikse and Veerman 2001b) to specify *two specific challenges regarding delays* in the agricultural production chain: *first, how to prevent post harvest delays* (for perishable products) and *second, how to attract outside (risk bearing) investments (funds)*.

EU co-operatives, especially in Holland and Denmark, are good examples of how agricultural co-operation can solve many traditional problems related to transaction

costs and how they can adjust to the changing environment. Because of the marketing co-operative's countervailing power aspects, *both these problems can be solved in homogeneous product markets and when the co-op investments are not specific.*

However, *in differentiated product markets, marketing co-operatives cannot provide the necessary investment level* with a high level of asset specificity, such as developing brand names (Hendrikse and Veerman, 2001b). The farmer-member has to make investment decisions. This sometimes entails whether to put money into his farm and/or into the co-operative. The decision to accumulate capital for further vertical integration is offset by the temptation to invest in the farms' assets. Also the co-operative finds it difficult to gather funds from external sources because the membership control principle entails worse terms.

Therefore *the second delay problem can only be solved by switching* (conversion process) from a marketing co-operative to a conventional firm (Hendrikse and Veerman, 2001b), like in Ireland (Harte 1997, Hendrikse – Veerman 2001a,b; Zwanenberg, 1992).

In order to meet the basic co-operative aims and to compete in a market-oriented environment (e.g. more liberal agricultural policies, opening European and world market, etc.) co-operatives will come to execute *new marketing strategies*. To implement such new marketing strategies, they have to collect more risk capital and this is currently precipitating some *fundamental financial and organisational changes* in Western European agricultural co-ops.

Due to increasing organizational costs (Harte, 1997), and given the heterogeneous nature of co-ops, democratic decision-making will become more problematic (Hendrikse and Veerman, 2001b). Closely related to TCE and the (democratic) decision-making process are a number of *potential problems regarding the traditional (countervailing power) co-operative model* (van Bekkum-van Dijk 1997, Nilsson 1998b). This is also true according to the *agency theory* (Nilsson 1998a, Cook 1995, Vitaliano 1983).

The most *important agency problems can be divided into two main groups* (van Bekkum, 2001): *investment related and decision-making process agency problems*. *In the first group are common property problems* that include external and internal free rider problems. There are also *horizon* and *portfolio* problems, related to members' interest in investing in the co-operative. The *decision-making process agency costs are related to monitoring and following up management activities*. If there are opposing interests in the co-op, they are costs related to *influence* building, and these are ultimately linked to management *decision problems* caused by a large and heterogeneous membership with different priorities and opinions.

Cook (1995) employs a co-operative life-cycle model that consists of five stages. In stage three he defines 5 problems. According to Cook (1995), *co-operatives' five inherent organizational problems are: free-rider, horizon problem, portfolio, control and influence cost problems*. These problems are also cited by Cook-Iliopoulos (1998), Royer (1999) and van Bekkum (2001).

Co-operatives have some control over the previously listed organizational weaknesses. According to Cook-Iliopoulos (1998) the co-operative can solve some of these problems *such as control and influence cost problems*. However, changes in European agriculture and contradictions in potential solutions tend to impact on the spread of *new co-operative*

models with alternative financing methods and new organisational structures/strategies (van Bekkum – van Dijk 1997; van Dijk 1997; Nilsson 1997, 1998b). To keep the basic co-operative character, they are *undertaking internal and external organisational changes*, which – in a number of cases – will create so-called New Generation or Entrepreneurial-type Co-operative Structures/Models.

We may sometimes conclude that agricultural co-operatives have advantages. This is especially true during a market failure problem, especially with some perishable products like fruit, vegetables, and milk, and when the market is not saturated. However, these advantages are not as apparent when the market-mechanism is working well, and transaction cost forms (contracting, monitoring, enforcement) are not high when compared to the internal organization costs. At this point vertical integration (and the co-operative organizational form) is not as advantageous in terms of a marketing strategy (Harte, 1997). Hendrikse and Veerman (2001a) also argue that in differentiated product markets with a high level of asset specificity, a marketing co-operative is probably not the ideal governance structure. They predict governance structures in which *members (farmers) have less decision power*. Likely to emerge are governance structures with better defined property rights, appreciable and transferable equity shares, specific delivery rights (Sykuta-Cook, 2001; Hendrikse – Veerman 2001a) predict *grower associations and participation companies*.

In the new co-op models there are additional contracts between members and the co-operative, forcing internal competition. In fact some of the new co-operative models are acting as market institutions themselves (Cook, 1995; van Dijk, 1997; van Bekkum and van Dijk, 1997; Meulenberg, 1997; Nilsson, 1997, 1998, Ollila, 1989; Royer, 1999). *Nowadays the conversion process poses a major challenge for co-operatives and probably more practical types of the new model(s) will emerge*. However, in this regard recent empirical evidence is sparse, and various studies reported controversial experimental evidence on the viability of co-operatives in modern agriculture. This will remain true until the products/services line is more important than the capital line (with appropriate principles to cement this), and until this happens an organisation will function as a co-operative whatever its legal structure. However, to analyse co-operative development dynamics and to grasp the substance of co-operation, “*co-operative identity*” might be a *useful concept/starting point*. *This is especially true if comparative research can be implemented*.

5. Conclusions: necessary extended interdisciplinary research activities on the substance of co-operation

Current economic co-operative theories alone are insufficient to define all aspects of co-operation’s substance and advantages (Røkholt, 1999, 2000). Therefore, it is necessary to *propose new, interdisciplinary research* (including a comprehensive theoretical overview) on *co-operation’s substance* and *emphasise the importance of gathering insights across the social sciences*, using the results and common findings of economics, law, marketing, financing, organisational studies, management sciences (“hard” sciences), and also some elements of philosophy, psychology, sociology etc. (“soft” disciplines). This would be based on a positive (economic-analytical) scientific approach. It would differ from the ideological normative approach toward co-operatives, since it would preserve its *scientific character and neutrality, untainted by political and social designs*. In accordance with the ideas outlined in this paper it would be important and useful to extend research activities and to carry

out *comparative research on the co-operative identity*. In order to economically analyse co-operation, *this would be done according to each country and different branches and sectors of the economy*. Moreover, this paper can be regarded as a preliminary study toward further research. Regarding this paper’s subject matter, the author would be grateful for any comments and/or suggestions, including ones for future collaboration!

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