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MEMBER INFLUENCE IN COOPERATIVES:

contributions of Scandinavian
studies to the research conducted
in the United States

By

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ABSTRACT

MEMBER INFLUENCE IN COOPERATIVES:

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This literature review summarizes research on member influence in cooperatives conducted in Scandinavia and some of the research conducted in West Germany. The review divides the contents of member influence into three components: individual factors, the cooperative organization's internal factors and the organization's external factors. As individual factors, participation, representation and representativeness are considered. Conflicts in cooperative organizations, the effect of the growth of the organization and the rules of decision making are discussed as organizations internal factors. The major interest groups in addition to members (the market, personnel and the society) are presented as external factors. The external factors are increasingly challenging the nature of cooperatives as member interest organizations.

The research was conducted under an assistantship in the Department of Agricultural Economics. I would like to express my deepest thanks to all the helpful people who made the paper possible: especially to professor Tapani Koppa who provided the material from Finland, Beverly Fleischer and John Staatz who, in addition to useful views, corrected the language, and professors James Shaffer and Glynn McBride who gave me many useful comments while writing this paper.

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1. INTRODUCTION

Cooperatives in Scandinavia

Economic "cooperation" usually implies the organization and pursuit of the ideals of interaction and self help into economic activities. Although cooperatives are not the only form of economic cooperation, we will mainly focus on them. In Scandinavian countries, several types of cooperatives can be found including producer, consumer, housing, and work cooperatives. They all share common characteristics. Their membership is to be unrestricted, decision making forms democratic (one member - one vote), restricted returns to membership investment and the returns allocated according to members' economic participation in the cooperative (SOU, 1981, p.23).

Skar (1981, p.14) categorizes the cooperatives according to their localization and type of coverage as shown in Figure 1. In Scandinavian countries, the most common cooperatives belong to the categories of unconcentrated cooperatives. The most of the unconcentrated cooperatives are rather somewhere in the intermediate area between the extremes of "specialized" or "general" cooperatives. E.g. a producers' dairy processing cooperative may have functions such as collective feed buying, calf trading, record keeping etc.

Consumer cooperatives usually cannot be described as entirely "general". Although consumer cooperatives function in many fields of consumer needs, it is hard to imagine a cooperative which can fulfil them all, without help from public and other private institutions.

Characteristics of localization	Characteristics of coverage	
	Specialized	General, all covering
Concentrated	Certain forms of housing	A "Total" co-op (e.g. kibbutz)
Unconcentrated	A Producer co-op; e.g. dairy co-op	Consumer co-op

Figure 1: A taxonomy of cooperatives according to their localization and direction of influence. Source: Skar, 1981, p.14.

Other possibilities for categorizing cooperatives are according to their reason of establishment, size, ideology, functional operations (Pichette, 1972, Eschenburg, 1977) etc. The appropriateness of any classification scheme is dependent upon its intended uses.

The cooperative enterprise form has varying degree of importance and popularity in different countries. In Scandinavian countries, cooperatives are very significant in many sectors of the economy. In Finland, for example, about 15 per cent of the total output of industry 60 per cent of food industry, more than 20 per cent of banking, 40 per cent of wholesaling and 25 per cent of retailing is produced by cooperatives (Kujala, 1975). In Sweden cooperatives manufacture

about 13 per cent of industrial production. The cooperatives dominate the food marketing system (e.g. 60 per cent of dairy products) and cooperatives rule about 15 per cent of Swedish wholesaling and retailing (SOU,1981,p.17).

Cooperatives have become politically influential in all Scandinavian countries through participation in large, federated organizations. Still, the regulations of cooperatives usually emphasize their independence from political parties (Laakkonen,1978,p.12). Because of this politicalization at the national level despite the philosophical stance against political participation at the local level a question that naturally arises is, "WHAT HAS HAPPENED, IF ANYTHING, TO THE INDIVIDUAL MEMBERS' POSSIBILITIES FOR INFLUENCE IN SCANDINAVIAN COOPERATIVES?"

The objectives of this paper are:

- 1.To review Scandinavian and West German research on the factors affecting the member's ability to influence decision making in his local cooperative.
- 2.To summarize the literature in order to supplement the research on cooperatives conducted in the United States.

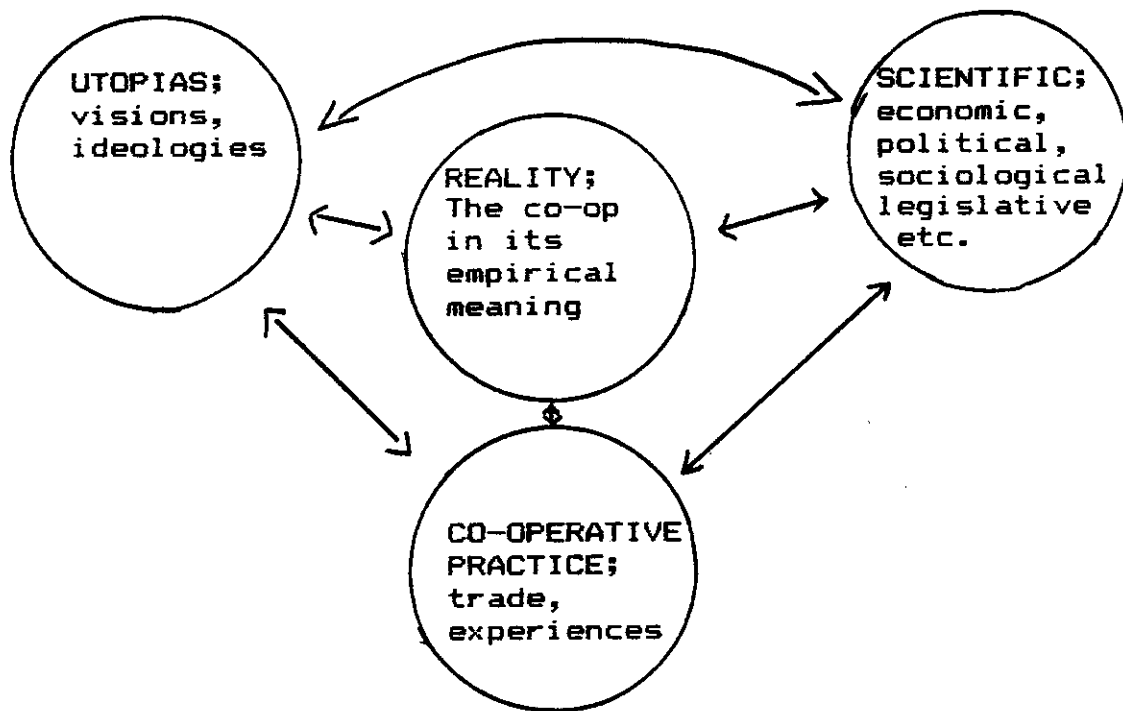
Because the intention is to review the literature, very little analysis of the results of findings will be included. The review does not cover all the research on cooperatives conducted in these countries. The reason is practical: only available is reviewed.

Scandinavian literature on cooperatives

The formal beginning of cooperatives as they are currently known is considered to be a shop in Rochdale, England, in 1844. The present body of literature on co-operatives also began to accumulate at that time.

Scandinavians' interest in cooperatives began in the late 1800's because of the problems of small farm holders and the rural landless. Cooperatives were seen as a means of generating needed changes in the rural areas. "Merchants often sell to farmers falsified goods, the state of which the latter are not able to examine, and the use of which, in the carrying on of agriculture, brings them considerable losses, which have their effect for many years. ... In addition this development of capitalism has drawn away from the country districts, and especially from agriculture, intellectual labor, thus decreasing the influence of the country districts and the ability of farmers to watch over their interests." (Gebhard, 1916, pp. 4-5).

The cooperative movement has developed at the practical level and in the literature, two main focii: the farmers' cooperative movement associated with rural people and their ideologies, and consumers' cooperative movement associated with urban labor movement and their ideologies.



Possible interactions \longleftrightarrow

Figure 2: Foundations of knowledge about cooperatives.
Source: Skar, 1981, p.18.

The literature on co-operatives published in Scandinavia is too large to review in its entirety here. The literature can be categorized, according to Skar (1981, p.17) into three categories; (a) utopias, (b) practical and (c) scientific works as shown in Figure 2 above.

The utopian literature treats cooperatives as a component of the "new society". It is based mostly on the assumption of common values, and this is similar to the literature associated with many other utopian ideologies such as new small community constructions.

The practical, descriptive type of study dominates cooperative literature in Scandinavia. Because so many of the studies are conducted with the support of cooperatives, some take a philosophical view close to the utopian literature and critical analysis is avoided. Literature in this category has

sometimes been used to promote the interests of cooperatives (Skar,1981,p.20).

Scientific literature on cooperatives is not very well developed in Scandinavian countries. Despite some individual attempts to explain cooperatives theoretically (e.g. Kaarlehto,1956), research seems to be at the stage where the most interesting results are still to come. The strong position of cooperatives has probably been a hindrance to objective, critical theory establishment, despite the resources put into research. This paper which draws from the literature in the intermediate area of scientific, reality and practice in Figure 2, will summarize some of the Scandinavian research on member influence in cooperatives.

Cooperative democracy and member influence

The member meeting is the highest decision making forum in cooperatives. The cooperatives' grounding as a democratic association is already stated in the well known Rochdale principles. Isaksen (1982,p.13) states that a cooperative without a democratic decision making system cannot exist.

Isaksen describes democracy as an arena for interest competition, a means of taking different and even sometimes conflicting opinions and their relative support into account in decision making. Democracy does not mean that the conflicts among the members can be settled. But they can, in an ideal case, be optimally controlled (Eschenburg, 1974,p.8-10). This means that a solution where the sum of conflicting interests is at minimum can be found but this does not eliminate the

existence of conflicts .

Isaksen states that political-scientific philosophers have emphasized the goal setting process which is "built" into the democratic system. He notes, however, that these ideals of democracy of large societies can not be directly implemented in cooperatives. He criticizes some generally accepted notions about democracy including the notion that democratic organization promotes general interests. He doubts that "many peoples'" interests are always general interests, although they probably are more general than "few peoples'" interests. He also reminds us that democracy educates those who are participating. Another statement criticized by Isaksen is that democracy promotes efficiency. He says that working towards the same goal can probably do so, but that the democratic system is slow. In other words, democracy may sometimes occur at the cost of efficiency.

The practical meaning of democracy is different in present-day large cooperatives than the earlier, smaller cooperatives. The decision making system has become much more complex, and the shift from direct to indirect participation has occurred.

What is the real content of member influence in modern cooperatives? Aksnes' (1982,p.82) illustration of the components of member influence in a cooperative is shown in Figure 3. Aksnes divides the contents of member influence in a co-op into three components:

- Individual factors : The relationship of an individual to the organization as well to other individuals in the

organization.

- Organization's internal factors : The relationship of the organization to its working conditions, decision making structure etc.
- Organization's external factors : The relationship of the organization to the relevant market, authorities etc.

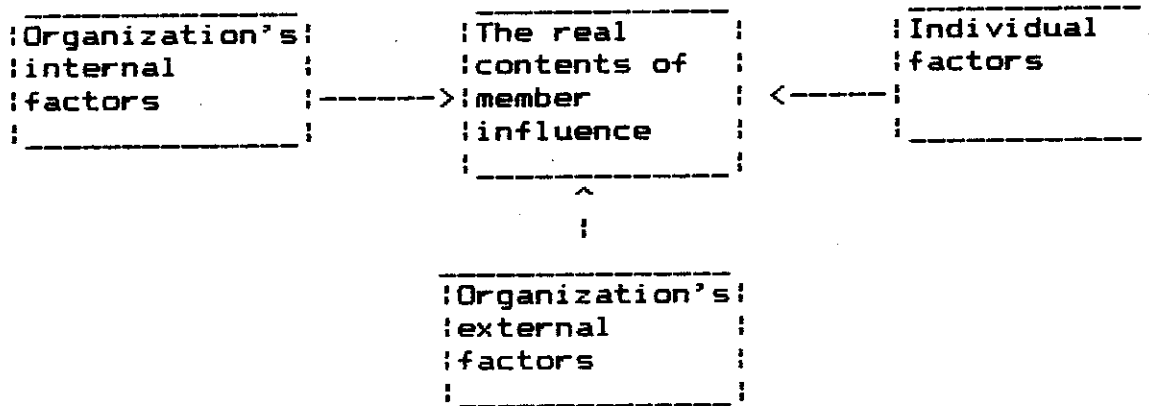


Figure 3: The components of member influence by Aksnes.

In the remainder of this paper the relationships discussed by Aksnes, and the factors which affect them, are examined in greater detail. In section 2 individual factors affecting member participation and representation are examined. In section 3 the cooperative organization's internal factors affecting the member influence are considered. Such elements as conflicts, the impact of the growth of a cooperative and decision making rules are discussed. In section 4, a shift from inside to outside the cooperative is made, and some external factors affecting the cooperative and its member influence are examined. Three interest groups, the market, the personnel of cooperatives and public authorities are considered.

It should be mentioned that the components mentioned in Figure 3 components are not independent from each other, but interrelated. A shift in one affects the others.

2. INDIVIDUAL FACTORS

Participation

Participation is viewed as the interaction between the co-op and an individual, usually a member. Aksnes (1982,p.23) categorizes the participation into three categories: (1) membership/no membership, (2) participation in economic activities and (3) participation in the organization's decision making system. According to Aksnes (1982,p.82), the important questions regarding participation in cooperatives are:

1. What are the most important factors for a farmer to consider in determining whether to become a member of a cooperative ?
2. Which factors affect the individuals' participation in the cooperatives' decision making system?

Member participation in a cooperative can occur in two ways. A member can participate in the economic activities of an organization and in the decision making system. Skar (1981,p.25) places the decisions made in the first area in the category of participation exploitation decisions (economic transactions) and in the second, adjustment and participation decisions. Usually everybody can participate in exploitation decisions, but participation in adjustment decisions requires that a person be a member of the a cooperative. In this section our focus will be on participation in the decision making system of the cooperative.

The decision to become a member is usually considered to be a result of an individual's rational thinking and the expectation that the benefits of mambership will be greater

than the costs (Skar, 1981, pp. 51-52). Benefit expectations are motivated by different needs. There is not much research done in Scandinavian countries in this area.

The decision to participate in the economic activities of the cooperative after joining is influenced by economic and ideological (cultural) factors (Aksnes, 1982, p.84) including:

- participation as a value itself
- participation as a sign of taking care of duties
- Participation as a sign of solidarity
- evaluation of benefits through participation
- cost savings through participation

Many Scandinavian studies show that economic factors are much more important than ideological ones (Aksnes, Kaarlehto, Laakkonen) in this decision. Hernes and Martinussen (1980, p.48) discuss a similar set of factors which affect participation. (See Figure 4)

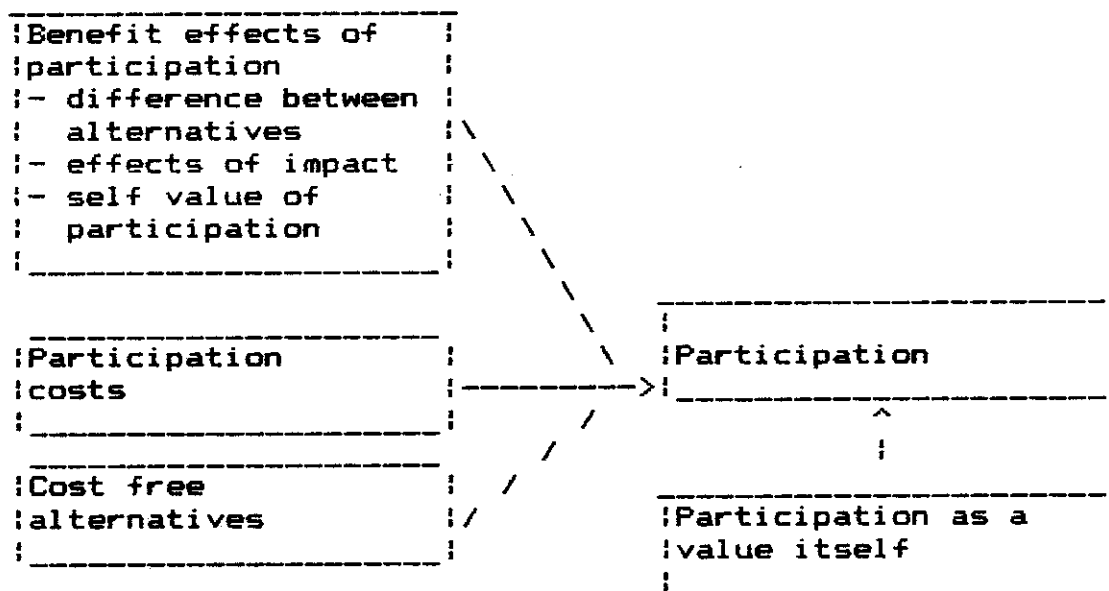


Figure 4: Factors affecting the member participation in a cooperative.

Aksnes examines the benefits of participation to the member and how different members value these benefits. A member can get economic benefits through participation, if s/he can affect his/her own economy through collective decisions. Most decisions in a co-operative are economic in nature, and they will benefit or become a cost to the member regardless of their degree of participation. The social and cultural benefits are important as well and cooperatives are viewed as having had a positive effect on democratic development in general.

Aksnes also presents the concept of "citizen's duty" to explain co-op participation. His study showed that relatively many Norwegian farmer co-op members who were interviewed regarded participation as member's duty. This corresponds with Hernes & Martinussen's (1980, ref. by Aksnes p.82) study which found that the citizen's duty was a good explanation of high participation figures.

There are always costs involved in participation. If a person can get the same benefit without participation (not being a member and avoiding the membership fees), a free rider problem occurs (Aksnes, 1982, p.84).

Aksnes (1982, pp.25-26) outlines different activity levels of participation in the decision making system. The first level of activity is the information seeking level, the second is the activity in meetings, the third one is representation and the fourth is direct action (cf. Bartlett, 1973, pp.133- 142).

At information seeking and meeting activity levels Aksnes

(1982,p.89) found that the level of education and the experience in organizations are the best explaining factors of participation. After these come farm size and the amount of goods delivered through co-ops. At the decision making level, high social status of the member seemed to be the most important factor.

The factors examined by Aksnes are to a great extent dependent on each other. It was mentioned before that participation educates and awards more experience to the participants. A large farm affects status and the amount of goods delivered through the cooperative. Aksnes study does not mention how the correlations between the examined factors were eliminated.

Als (1982) conducted a survey of member participation in various sizes of Danish dairy co-ops. He concludes that :

- * There is no significant connection between the member participation and the size of the co-op.
- * The type of meeting and the knowledge level required to participate restrict a significant proportion of members and trustees from being active participants.
- * There is a considerable difference between the actual content of the meetings and the contents preferred by the members.
- * Members' knowledge about the central issues for guiding and controlling the co-op was not sufficient.
- * There is a significant difference between management's and an average member's attitudes about important questions. Thus, many of the official attitudes, policies and activities are not supported by the majority of members.

Isaksen in his study of Norwegian co-ops (1982,p.17) concludes that member participation is important to the maintenance of the cooperative because it stimulates active persons, stimulates the achievement of desired goals and gives to the

members a broader view of the decision making environment than can be achieved in any other governing system.

Participation in the decision making system in a cooperative is necessary for preference formation on the part of the member and the co-op as a whole. Participation in the system depends on the motivation of a member which in turn depends on the economic and non economic benefits to be expected from participation. The members are different and value different benefits from participation. For instance, some members are interested in information for economic purposes while others seek status and acceptance in the community.

The desired benefits may not be achieved by all the participating members, and thus, participation may decline. Aksnes, Isaksen and Als all point out that there is little relationship between the benefits and costs of participation and the size of the organization.

Large co-ops may be able to establish a more sophisticated preference articulation system. They probably also have more resources for educating the members to be "better participants". The relative impact of strong, influential persons, either members or managers, is perhaps less dominating in large co-ops. However, there are many factors which may negatively affect the participation and member influence in large co-ops. These factors are discussed in greater detail in a later section.

Representation and representativeness

"Representativeness" indicates the visibility and consideration given to members' preferences in the decision making system. "Representation" in turn indicates the means of indirect preference expression in the decision-making system. The question of concern to cooperatives is how the representativeness of preferences can be maintained through the representation.

The importance of the question of representation has increased along with the growth of cooperatives and the increasing complexity of the decision making system. In large cooperatives, the direct participation of members in the decision making system has become impossible and most decisions must be made through elected representatives.

Isaksen (1982,p.14) questions what this shift to indirect decision making means in a democratic organization and its effect on member influence. He does not answer these questions, but states that the requirements for a good representative include that s/he is elected by the people s/he presents, to certain extent, has the characteristics of the group, and is able to become a symbol of the group. (cf. Birch, 1971)

Rokholt (1982,pp.89-104) states that a representative is not truly representative until s/he is representative in both background (measured by socio - economic and demographic criteria) and opinion. Similarity in opinion can stem from similarity in background, but this is not always the case. According to Isaksen (1982,p.15) a farmer cooperative's representative should be a relatively wealthy farmer so that

s/he can put enough time and money into representation.

There is a problem with opinion representativeness after the representative is elected. Their opinions and attitudes often become modified because of socialization in new roles (Rokholt, 1982, p. 91). Isaksen (1982, p. 17) supports this argument by stating that participation widens the participant's view, and thus changes opinions. The socialization can be considered as a positive phenomenon. If the representatives would entirely maintain their opinion it could bring rigidity into new idea generation.

Representativeness strongly influences the degree to which different preferences are presented. Rokholt examines possible causes of certain representative structures by diagramming the recruiting process as shown in Figure 5.

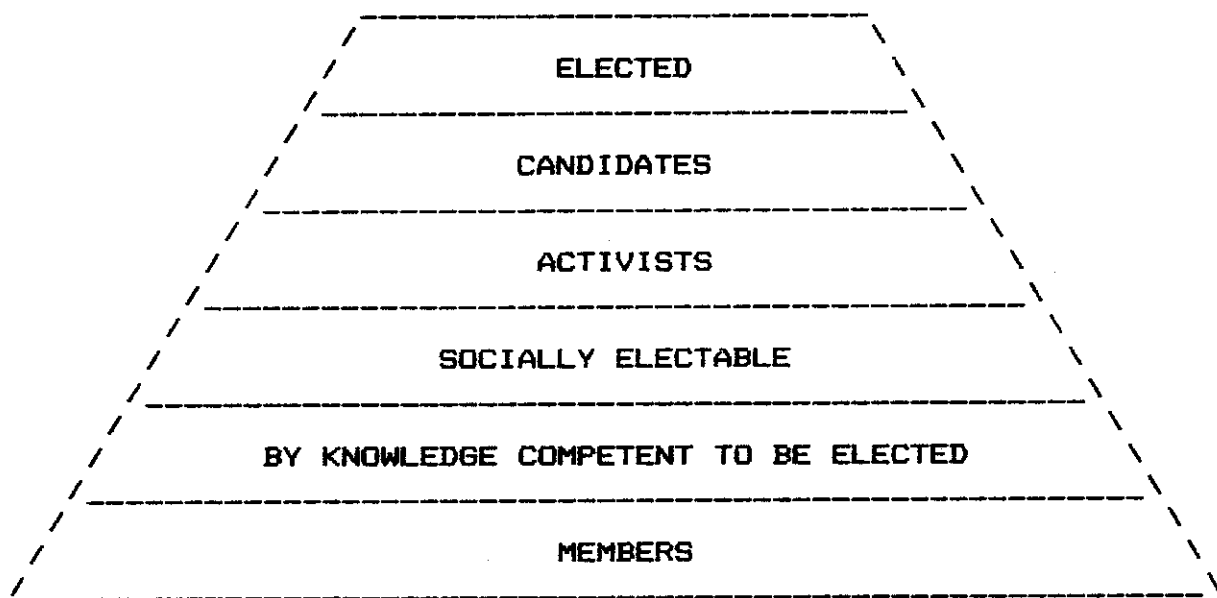


Figure 5: The recruiting process by Rokholt
Source: Rokholt, 1982, p. 93.

The structure and bylaws of the cooperative define who is

qualified for membership. According to Rokholt, in Norway, where a member of a farmer co-op has to be a farmer, there are not many women represented in the organization.

A certain level of activity in the co-op by a member is required in order to be elected. The person also has to show willingness to be a representative. Offerdahl (1974,p.54) states that one of the most important criteria for consideration of a person's candidacy, is a kind of decentness or properness as a citizen. Only the "socially electables" can be considered as real candidates for election.

Rokholt (1982,pp.94-96) presents another way of examining the recruiting process. He mentions three main factors which define who is going to be elected: (1) individual factors, (2) situational factors and (3) organizational factors. Rokholt considers these explaining factors as competing with each other, and rearranges them as:

1. Individual factors
 - a. demographic factors
 - b. socio-economic factors
 - c. attitudes/opinions/competence
 - d. the rate of activity, willingness to be elected
2. Situational factors
 - a. organizational norms
 - b. the notion about the situation in the organization

Rokholt connects these factors with earlier mentioned recruiting process, and presents the process in Figure 6:

Rokholt uses this model to examine factors leading to certain structures of trustees in cooperatives. He has examined how the structure varies in different types of cooperatives ,

which members are active in cooperatives , and wheter members willing to be elected have common characteristics .

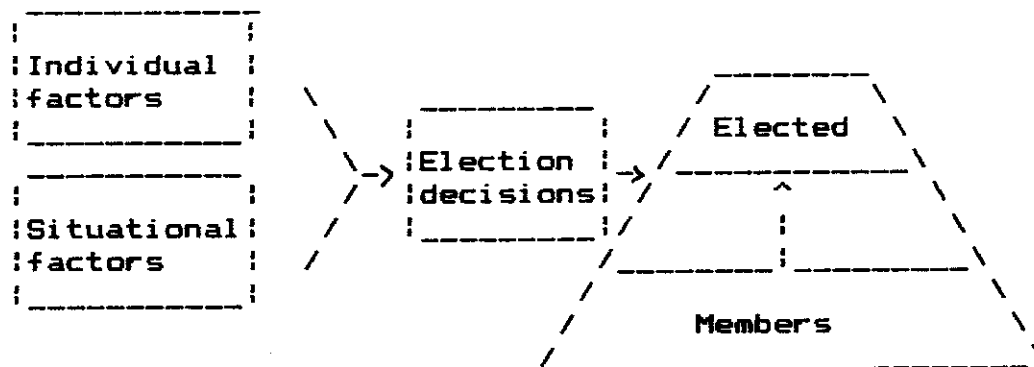
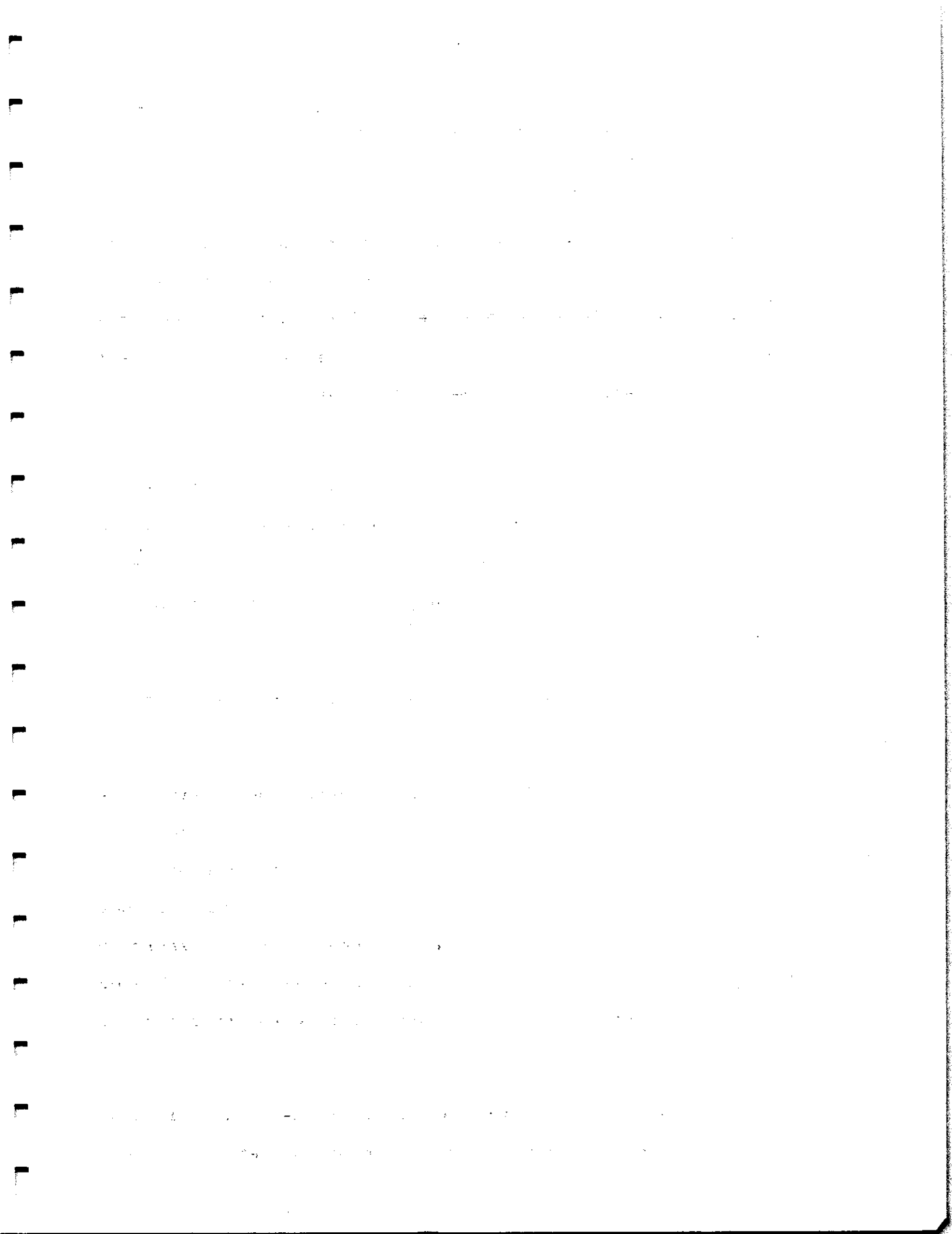


Figure 6: The recruiting process supplemented with factors affecting to the election decision (Rokholt,1982, p.96).

Rokholt did not find any significant differences in the variation of the representative structure in different types of cooperatives. He studied meat, egg and dairy producers' co-ops. The representatives did seem to differ from their electors in socio - economic background. The representatives had a higher social status. Their socio - economic status also seemed to make them more willing to seek a trustee position. The difference in the social status seemed to increase the higher in the hierarchy the level of trustees. Rokholt states that this phenomenon is similiar to that found in other voluntary organizations. The co-operative idea base itself seemed to have no impact on this charasteristic of democracy.

Because socio-economic bacground and willingness/suitability to be elected are correlated, it does not seem to be easy to leave the elite structure. However, Rokholt did not find that differences in the representatives backgound had an effect on their opinions. The socialization process and the

role as a trustee seemed to have a stronger impact on perceptions than the background.



In order to reach the maximum group "profit" to the cooperative members, the cooperative has to set the temporary price at the point where the AC is at minimum (M). At that point the members buy a quantity OR, and the co-op gets profits $P_r LMR_r$ which will be paid back to the members later.

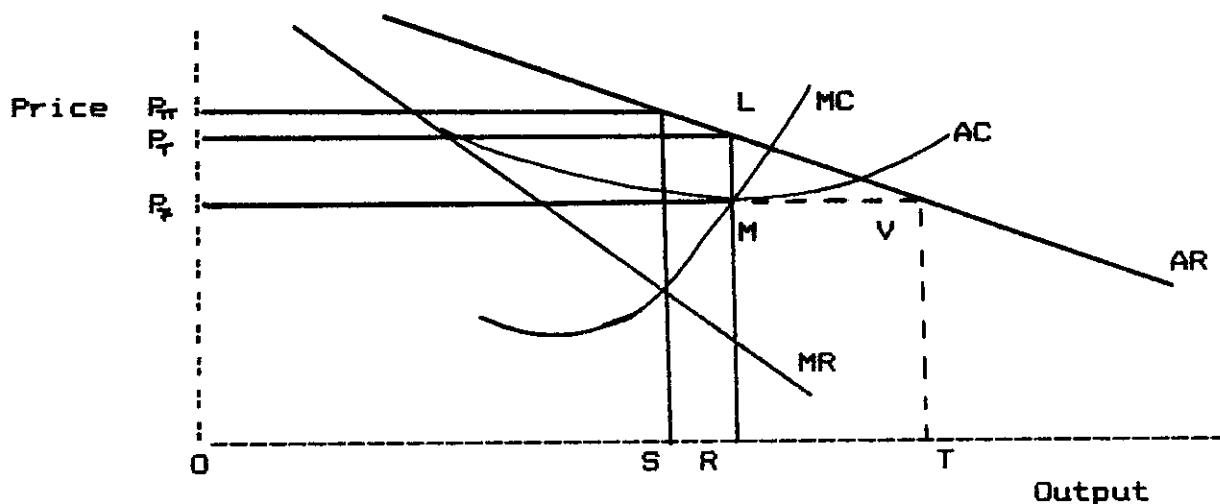


Figure 7: The pricing problem in a buying cooperative.
Source: Kaarlehto (1956,p.40).

According to Eschenburg, the group profit maximum will be reached only in case the members behave as if the temporary price P_r would be final. If not, the members will increase their purchases to OT, at which point (V) the average costs are considerably higher. The cooperative creates a social trap for itself (Platt,1973,pp.641-651).

Eschenburg (1974,p.11) mentions that the possibility of a member behaving against the group benefits without punishment, increases when the cooperatives become larger. According to this analysis the appropriateness of the returns in proportion to the use of the cooperative decreases when the cooperative becomes larger.

This analysis is short run in nature. The cooperatives, in the

longer run would not sell below the average cost but would, instead, decrease the dividends given to the members. It is also questionable how quickly the average costs would increase after M. But if they increase at all and the cooperative can not ask for a higher price from the later buyer than from the earlier one because of the principle of equal treatment, the cooperative is not operating at the point where the average costs are at minimum.

"Even if the anticipation problem would be more theoretical than practical, it is a very illustrative case to show how the members get into the situation where they have to choose to behave either individually or collectively and they have, in order to be rational, to act against the collective interest." (Eschenburg, 1974, p.12). Kaarlehto (1956, p.42-43) mentions that patronage dividends are, in many cases, rather insignificant. For instance, because of taxation, the cooperatives try to make the initial price as exact as possible.

Utterstrom (1982, pp.73-74) considers the increasing heterogeneity of members in modern Scandinavian farmer cooperatives a significant problem. Not only differences between various farming methods, traditions and attitudes towards the profession, but rapid changes in agricultural production have increased heterogeneity. Specialization has been predominant, and the large producers have become fewer but larger. Smaller producers often have another profession besides farming .

The fast development of agricultural production technology and

knowledge have increased the differences in the opinions between young and enthusiastic, and old and experienced farmers. Young farmers with a lot of debts may have other kinds of interests than old debt free farmers. Different areas of production can cause conflicts as well. A grain producer has a different interest in the price of grain than a feed buying beef producer.

Kuhn (1974,p.24) describes the problems of cooperatives as the conflict between maximizing the profits of its members, and operating as an independent, competitive economic unit. Kuhn states that this basic conflict in the cooperative can be interpreted as an allocation problem.

Kuhn (1974,pp.26-42) also presents a game theoretic model for the analysis of patronage dividend allocation. In this model he examines how the benefits of being a member affect the exit of a member and how the cooperative values the member's membership relative to exit. Most interesting in his work is the introduction of transaction costs in the bargaining process between the cooperative and members.

Different members are not equally important to the successful operation of the cooperative and thus, they have different bargaining powers. Kuhn (1974,p.33) points out that a small member does not plan to exit at all because s/he is afraid of competition outside the cooperative. Large members, on the other hand, are always considering exiting, because of their high threat potential. Thus, the large members (e.g. measured by their strategic importance) will always demand higher benefits to them than the smaller ones.

Kuhn states that it would be very dangerous to the cooperative to give the member meeting the authority to decide patronage dividends. With one member - one vote rule it would be just a matter of time before the larger members would exit and establish a competing cooperative. Other conclusions from Kuhn's research are:

There is no "optimal" allocation process, because the solutions are highly dependent on the size and structure of the cooperative and the mentality of its members. (cf. Staatz, J.1983)

The "One man - one vote" principle has to be abandoned. This principle is more dangerous to the existence of a cooperative the smaller the number of members and the more heterogenous they are.

The larger some members are, compared to the other members, the larger economic power the cooperative must have. It should be able to delay the dividends if necessary.

Because of a chance of unsolvable conflicts, the cooperative should be managed, at least to some extent, by non-members. ✓

The relatively large power of the management should be compensated by an efficient control system.

By establishing the rules of the allocation of patronage dividends, a cooperative can control the action of large members in order to avoid dangerous, unstable or escalating situations.

(2) Vertical conflicts: Conflicts between different institutions (e.g. between the board members and "regular" members). In addition to different interests, conflicts between various groups can be caused by the by the socialization process. Persons getting a more general view of the operation of the cooperative may have different opinions about the optimal control of conflicts than before.

As an example consider the conflicts between the first degree

(local) dairy cooperatives and the second degree, federated (regional) cooperative in Finland. The local first degree cooperatives have the responsibility of production, and the second degree cooperative carries the responsibility of marketing and coordination. Because of coordination some of the decision making power of the local cooperative has been shifted to the federal level. For instance, in some areas there have been quarrels because the federal cooperative wants to decide to which cooperative an individual member should belong.

The conflicts between the management and members can be considered as vertical conflicts as well. Eschenburg (1974, p.13) points out that there should be no problems in the conversation between the management and members in a cooperative. The member meeting is the highest decision-making group and thus, should be able to prevail even against the management's desires.

Eschenburg states that this is, however, very questionable at the practical level. First, the management should be aware of members' preferences to be able to fulfill them. Secondly, because of high transaction costs, the decision making has to be somewhat delegated, even at the risk that the management sometimes would act against members interests. Thirdly, the decisions are dependent on the information the different subjects have.

Eschenburg concludes (p.16) that the management prevails much more often than members in cases where their interests conflict. Because the management has access to a broader range

of information and technical expertise , it is possible that the members are manipulated into making decisions prepared by the management which are actually against their own interests. Eschenburg says that this result is particularly dangerous to the members who do business exclusively with the cooperative. Thus, doing business with competing firms, which can be considered against the cooperative's common interest, can actually benefit the members.

The idea of "harmony" really seems to be inadequate in examining the cooperatives. There are different, more or less conflicting interests in a cooperative. These conflicts cannot be hidden or avoided. But after admitting their existence they can be, at least to some extent, controlled. There is, however, the question of what criteria to use in ranking interests in the the decision making process and how the conflicts are compensated. The criteria used to rank interests and reduce conflict among different interests can be in conflict with the principle of democracy. Questions which arise include, if just one of many different alternatives is chosen, how can it be assured that the best one is chosen? According to what criteria is the one alternative better than the others? Is the opinion of the majority always closest to the "right" one? How much can the majority decide against the minority?

The growth of the cooperative

One of the aspects of cooperatives which is discussed extensively in Scandinavian countries is the impact of the

growth of the organizations on member influence. Mogelhoj (1982,pp.106-107) divides the impact of the increase in the size of a cooperative on member influence as follows:

- When the number of members in a cooperative increases, the relative influence of an individual member decreases.
- The election shifts from direct to indirect.
- The distance between average members and decision makers becomes further in both the geographic and organizational sense.
- The power of hired management can be expected to increase, e.g., because of the need of more expertise. [This statement gets support from Laurinkari et.al.(1982, p.136) published results of the research on Finnish cooperatives.]

But on the other hand, it can be expected that the larger cooperatives can have a stronger impact on their environment and, thus freedom in making decisions becomes greater.

Cooperatives have grown and merged into very large and complex organizations in every Scandinavian country. In contrast to the critical opinions of many cooperative researchers in the US (Breimeyer 1965, Torgerson 1970, Kraviz 1974), there is not much evidence in Scandinavian cooperatives of a decrease of member influence directly attributable to the increase in their size. Utterstrom's conclusion after examining large Swedish farmer cooperatives was that " there are no direct and acute crises to be seen in the circumstances between the members and farmer cooperatives as a direct result of establishing large, federated organizations."(1982,p.72). Already referred is the conclusion of the Danish dairy cooperative study conducted by Als (1982,p.55) that there is no significant connection between the size of a dairy

cooperative and member participation.

Although size itself does not seem to be a significant factor in shaping member influence, there are other factors which are closely related to the growth of the cooperative which do. Utterstrom (1982,p.73) states that "associations' increased complexity is in the future a more dangerous threat to member democracy than size. ...In a complex environment of a large cooperative, it is a more and more difficult job for a trustee to be a link between the members and management."

Pestoff (1982,p.162) writes, "Is it possible that an organization becomes strong in capital, influential and still is managed democratically by its members? The answer in a recently established federal cooperative in Sweden is absolutely, "No". There is no room for an individual member's opinion anymore. Thus, the cooperative will be reorganized soon." It may be questioned whether the effect for redesign is not member influence?

Mogelhoj (1982,p.120) concludes that an average member in a small dairy cooperative has closer contact with the management/decision makers than a member in a large cooperative. Mogelhoj did not get a clear answer about the relative impact of hired management in different sizes of cooperatives. But he mentions how important a person the manager of a small dairy plant can be to the operation. He states that the hired management has a lot of power in the small and intermediate, as well as large cooperatives.

Although the size itself does not, according to Scandinavian

researchers, have direct impact to the member influence in a cooperative, it is so closely related to the other factors that the size can not be out ruled while examining the member influence in cooperatives. Even if an equal amount of member influence could be obtained in various sizes of cooperatives, the requirements for the preference expression system are different. The Scandinavian research has not clearly defined the content of measured member influence. An interesting question to examine would be, are there any differences in the contents of member influence in different sizes of cooperatives.

Another aspect closely related to the growth of cooperatives is the distribution of responsibilities in a cooperative. It has often been stated in Scandinavia that in large cooperatives the responsibility of certain functions is so high above the regular members and so dispersed in the organization that it is actually almost nowhere. The question of the relationships between power and responsibility in a large organization is not a well examined area in cooperatives, either.

The rules in decision making

One of the main principles of a cooperative is democratic decision making. In most of the cooperative literature, this principle is just mentioned without further consideration. Others mention the one member - one vote principle as a proof of democracy's existence.

The one member - one vote principle seems at a first glance to

assure that equal member influence and "fairness" in a cooperative. But there are some problems with this principle. For instance, if somebody spends \$ 10,000 every month at the cooperative and buys 100% of his farming supplies in the cooperative, doesn't he consider it unfair that another person occasionally spending just \$ 10 in the cooperative has an equal right to decide about the conduct of the cooperative? Even if the importance of the cooperative to each member could be judged as equal, can it be ensured that the optimal compromise of different preferences is reached through one man - one vote?

*Problem
man
300*

In the case of conflict between the immediate payoff and the long run existence of the cooperative (capital collection), can the optimal solution be reached by the members? It was mentioned above that Kuhn (1974,p.34) did not consider the member meeting to be proper forum for deciding payoff allocations. He would delegate this work to the executive committee or to the board of management.

Even if an optimal control of conflicts (Eschenburg,1974,p.8) could be reached, some problems would remain. The member meeting can not be assembled all the time, and in changing circumstances strict decisions about the conduct cannot be made. In very large cooperatives, there would be practical problems even in arranging a member meeting. Thus, some decisions have to be delegated from member meetings to smaller groups, even in small cooperatives. Rules have to exist for definition of relations between different institutions as well as members in a cooperative (Eschenburg,1974,p.9). The rules

define whose interests count (Schmid,1978,p.6).

Legislation defines the basic form of a cooperative in most countries. For instance, in Scandinavian countries, legislation recognizes the special characteristics of a cooperative as an economic association. But the legislation does not very well take into account the special characteristics of different types of cooperatives.

Despite legislative regulations, a cooperative must have its own rules. These rules should define the roles of different institutions, and how conflicts are solved. The "sufficient" member democracy does not have to mean that every decision should be made democratically. The rules should define to what extent democracy is implemented in the decision making process.

After decisions are made by the members, these decisions can be implemented in a wrong way (differently than decided) if the control is insufficient. Eschenburg (1974,p.15) states that a more important question than control is to what extent the preferences of members are visible in a reliable way. Eschenburg presumably means that the decisions may not reflect preferences if their expression is insufficient. This weakness cannot be corrected by control.

The decisions of the members depend on the information available to them. "In all the questions which are connected with the evaluation of the importance or accuracy of business political operations, the manager can affect the decisions of the members by consciously selected information."

(Eschenburg, 1974, p. 15). This statement is similar to Bartlett's (1973, pp. 137-142) conclusions about the possibilities to influence voters by subsidized information in environment of uncertainty. The role of information turns out to be a very important question in designing cooperative rules.

At the practical level most cooperatives' rules define the roles of internal institutions traditionally (Simon, 1979) such that the members define general goals and the administrators define the means. But because the goals cannot be separated from earlier goals and means, the role of reliable information about the effects of earlier decisions and the present situation is very important. Of course, the ability of members to use information is important as well. These two questions are probably very close to Utterstroms discussion about increasing complexity (1982, pp. 72-73) mentioned above. Thus, the complexity stems from the existence of subsidized information and the ability to use the information.

In large Scandinavian cooperatives where direct participation is either impossible or cannot be the only way to members' political influence, a board of representatives is elected. The representatives probably have more incentives to put more efforts to the decision making than an average member. The problem of representation has already been discussed.

Laurinkari (1980, p. 15) points out that the election of the board of representatives may increase democracy in the sense that a much larger proportion of members are found to

participate in the election of representatives than participate in member meetings. According to Laurinkari, only the most active members participate in the member meetings and thus the preferences of passive members are not taken into account. However, the elections of representatives occurs much more seldom than member meetings.

The election of representatives compared to member meetings brings out the interesting concepts of "voice" and "exit" presented by Hirschman (1970). "Voice" means, for example, complaining in order to get the desired changes, while "exit" is leaving one organization for another. Hirschman (pp.36-43) states that the voice option carries much more information than the exit option.

With elected representatives, voice in an election can be expected to carry much less information than the "voice" in a member meeting, because the casting of a vote transmits very little information. In addition, the absence of interaction between members in elections can lead to results different than those obtained in a case when the the opinions can become reinforced by others (Scinner,1970).

Kuhn (1974,p.34) states that the board of directors or the management are the best performing groups in a cooperative. He emphasizes these groups' role in a cooperative. But as a counter balance, a control system has to be established to prevent excessive independence of management or the board of directors.

Kuhn (1974,pp.36-39) examines the occupation of the board of

directors. He states that the board of directors should not be entirely composed of members or their representatives. Kuhn says that at a first glance, one would think that the small members would be more willing to take management responsibilities because large members would not want to ignore the management of their own operations. On the other hand, the significant lead in the access to the information is more important to the large members than to the small ones.

Kuhn states that despite definitely better capabilities, the large members are an unstable element in the cooperative board because of their permanent goal conflict with the cooperative. An especially difficult situation can also occur if there are few large members among many small ones. In this case, to secure their chairs, the management has to seek support among the small members, which in turn can lead to the exploitation of large members and thus, to instability³ (cf. Olson, 1965, p. 29). Kuhn thinks that this situation can be prevented only if the election of the board of directors is not democratic, but allows large members to get the position which correspond to their strategic importance.

For instance, in Finland the one member - one vote principle is included in the cooperative law. Exceptions to this principle can be made in cooperatives in which the majority of members are themselves cooperatives or other associations (Hakala, 1980, p. 25). In these kinds of federated cooperatives the large first degree cooperatives can have more votes than smaller ones.

The influence of rules of the cooperative in shaping cooperative behavior is a difficult and relatively neglected area. No optimal solution for the tradeoff between optimal member influence (best possible preference expression and influence) and efficiency (costs relative to the benefits of the decision making system) can be found.

"If the process of decision making is insufficiently certified or entirely uncertified, a difficult trust crisis can break up in some participating individuals. This can lead into the appearance of uncontrolled surviving strategies. On the other hand, the designer of the rules can include sufficiently loose (dilatatory) and, after all, informational points into rules in order to break the head from conflicts as much as possible." (Kuhn, 1974, p.39). By "loose, dilatatory" rules Kuhn means rules and restrictions in which there remains some room for interpretation according to the situation. The purpose of "informational points" is to explain reasons for some rules as well as possible consequences.

But isn't it also a little dangerous to leave too much guessing to a person about what are the limits of the accepted behavior? Who is capable of interpreting these "loose" paragraphs? Loose rules can, according to Kuhn, slow down the speed of "action" and "reaction". The violating behaviors should be controlled in their very early stages because "only one unscrupulous quarreller can cause significant disturbances among the peace-loving members so that in the beginning well cooperating members can start quarreling with each other." (Kuhn, 1974, p.40).

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Rules have a very significant impact on the performance of cooperatives. They define the criteria by which the interests are taken into account and how decisions are made and implemented.

The rules become more complex and more important when the number of members increases and/or the membership becomes more heterogeneous. One difficult problem with rules is trying to change them. It is probably a rather common problem that the rules lag behind the development of the cooperatives' organization and environment.

4. THE COOPERATIVE ORGANIZATION'S EXTERNAL FACTORS

The interest groups of a cooperative

No organization can be understood without putting it into the context of its environment. However, the interrelationships of organizations are so complex that almost the whole economy would be examined in order to evaluate all the effects (Shaffer,xxxx,p.3). Therefore, for simplicity and relevance, concentration on the main interest groups or actors is usually sufficient.

Pestoff (1982,p.165) presents the main interest groups which comprise the environment of Swedish farmers' producer cooperatives as shown in Figure 8.

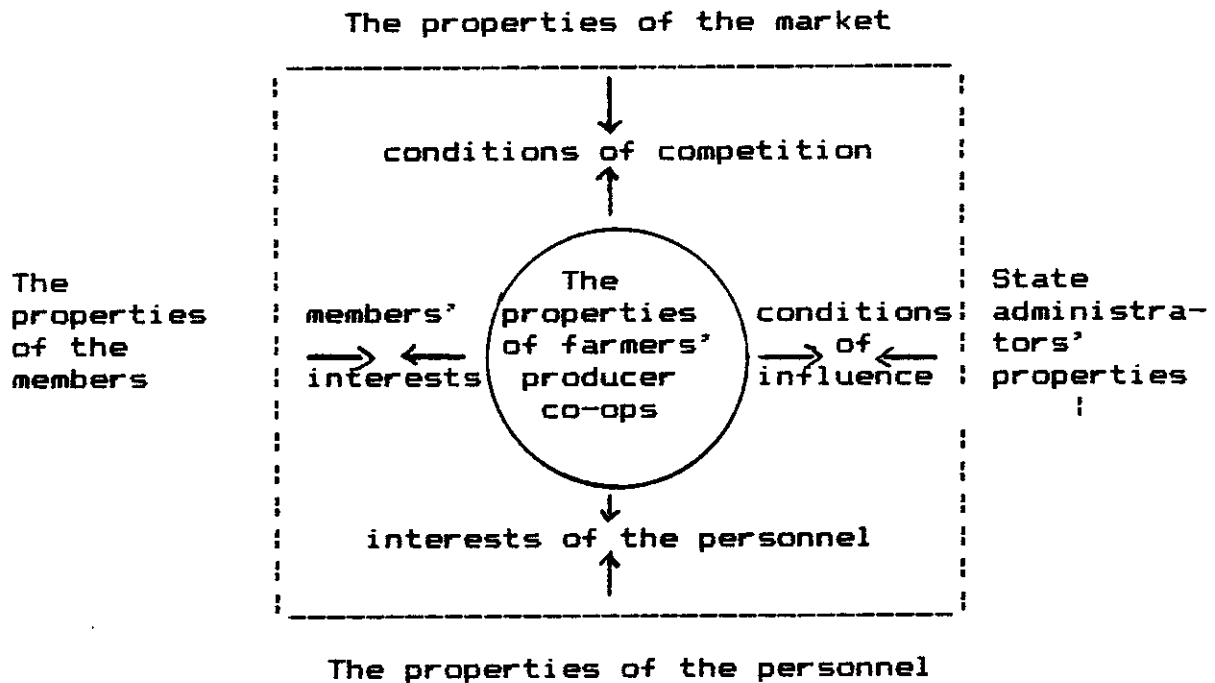


Figure 8: The interest groups of a cooperative
Source: Pestoff, 1982, p.165.

To this point we have concentrated on the connections between members and the cooperative organization. In this chapter the impact on member influence of three other factors presented in Figure 8, individually and as a system, will be discussed. The meaning of member influence is in some instances extended outside the cooperative as well.

The influence of the market

The main influence of members on the cooperative occurs through the purchasing process. This influence is according to Hirschman (1970) the "exit" type of influence in which economies of scale are prevailing. The economies of scale are most important because decreasing the costs through collective actions can be considered to be the main reason for establishing the cooperative. "In principle, the internal transactions are not affected by the market in a cooperative, which is from another economic world, but the practical level cooperatives are almost everywhere involved with the market process." (Wiese, 1974, p.79). Despite Wiese's statement, it would be difficult to imagine, even theoretically, a cooperative in where the market would have no influence. Wiese perhaps means that in principle, the prices in transactions between the cooperative and a member (relative to the dividends) can be determined without the influence of the market.

If the cooperative were a closed system in which the members bought exclusively from the cooperative and the cooperative did not do business with non-members, the transactions would be considered as administrative. But usually there are other

alternatives available for a member, and non-members also have a significant impact on the operations of the cooperative. Thus, the cooperative has to be competitive in its services in order to give economic benefits to its members. Even if no competition exists, the cooperative has to be competitive relative to possible individual behavior in the market.

Conflicts exist in maintaining the cooperatives position in the market. On the one hand, economies of scale require solidarity among the members, while on the other, the members' option of purchasing outside the cooperative is needed to maintain competitiveness. It is difficult to define what is the right amount of members' "market inquiry buys" from outside the cooperative.

Wiese (1974, pp. 78-101) investigates the question of why cooperatives have different market shares, from rather insignificant to close to the monopoly, in different fields of operation. He states that although it could be expected (he does not explain why) that the cooperatives always would beat their competitors, this has not occurred. Wiese is looking for a stable, competitive balance between different types of businesses as well as in what circumstances the cooperatives can penetrate the market (which is assumed to exist) and survive.

Wiese presents the concept of "potential market service" by which he means the market's ability to serve customers in a situation without cooperatives. Wiese does not describe what he means by bad potential market service. He mentions that it

can be caused by imperfect competition. Wiese states that the benefits of a cooperative are larger the worse the the potential market service situation. Thus, the worse potential market service, the more likely the customers are willing to establish a cooperative. The cooperative activity and its intensity become, thus, a function of the potential market service.

If a group of customers are affected by an undesirable potential market service and even a proportion of the group establish a cooperative, the market service can be expected to improve. At first the improvement affects only members but after a while, non members as well. (Wiese, 1974, p.86).

Wiese's reasoning behind this statement conforms to the idea of cooperatives as "competitive yardsticks" presented by Nourse (1922). The idea has been more widely accepted than the "counter" idea about the desirability of monopoly power of cooperatives presented by Shapiro (cf. Cotterill, 1983).

With the increasing effect of the cooperative on the market the market for the "old" suppliers declines. This increases the competition of non-cooperatives for a smaller market share and the prices must, at least temporarily, decline. This in turn improves the position of non-cooperative customers. (Pecuniary externalities, see Schmid, 1978, pp.173-176).

However, after the adjustment process, during which some marginal suppliers probably exit, the situation could return to the undesirable position again if some new elements do not come to the picture. According to Wiese, these necessary

elements include: (a) potential competition caused by the increasing number of members and the establishment of new cooperatives, (b) increasing intensity of competition in cases where farmers do not exclusively patronize the cooperative, (c) increasing intensity of competition because of the cooperatives' business with non-members.

The decisive question is whether this process of increasing competition will continue and if so, how long? Will it lead, and when, to a stable balance between cooperatives and private enterprises? As was mentioned above an intermediate result, of the appearance of a cooperative is the creation of an improved market service to both members and non-members. Wiese mentions that the positive effects are small when a cooperative is small, and that the increase of cooperative operation brings along a diminishing marginal benefit to members.

In the absence of any counterpowers, the process of "cooperationalization" could continue until the marginal benefit reaches 0. Perfect competition would be reached. Wiese considers perfect competition an optimal market service situation. Perfect competition can be considered partly inconsistent with the idea of a cooperative as a form of vertical integration. If a cooperative could only compete on the basis of "business economics" price setting, would it be a cooperative anymore?

There are, indeed, costs involved in using the cooperatives. These costs increase along with increasing impact of a cooperative in the market. Wiese presents these constraints to expansion as:

1. Decision costs (relative to the benefits) to become a member start to increase.
2. Alternatives for members decline along with the increasing dominance of a cooperative in the market (opportunity sets, see Shaffer, 1980, p. 311).
3. Intensity and dynamism of competition are likely to decline.

Wiese's concludes that:

1. The market service of customers is improved by the activities of the cooperatives. With the increase of cooperative activity marginal benefits decline.
2. As a counterpower to the benefits of cooperatives, there are disadvantages: an obligatory agreement to pay membership fees and to take responsibilities in the cooperative, the decline of alternatives, and the decline of the competition. From these follows:
3. The balance in the competition and, thus, the stability between the cooperatives and private enterprises is reached when the marginal benefits of cooperative activities are equal to the marginal costs.

What does all this mean to the member influence in cooperatives? Even in a situation of insufficient market service, the cooperative cannot be established without some kind of heroic behavior (Platt, 1973, pp. 644-645). At the starting point and in the beginning the question of solidarity is emphasized. The economies of scale are perhaps not yet reached. Difficulties in expression of members' preferences probably do not yet exist.

When the cooperative grows it becomes more complex. At the same time, the organization develops from a single goal organization into a multigoal one (Rokholt, 1982, p. 148). Member influence and control becomes more difficult. Also the correcting effects in the market outside the cooperative begin to change it so that the relative advantage of the cooperative

declines. Loyalty comes into the picture.

With the growth of the cooperative use of the voice option (Hirschman, 1970) can become more difficult (even though it was earlier stated that growth itself does not have to be the cause of these difficulties). When the market service situation improves (becomes more close to perfect competition), the sensitivity of members to market changes increases and exercise of the exit option increases. The only possibility open to a cooperative is to start operating similiar to other firms. The member influence shifts, at least partly, from voice to exit and subsequent pecuniary effects through the market.

Wiese is proposing that in a situation where the market is "corrected", the importance of the existence of the cooperative becomes less (cf. Nourse, 1922). Can a cooperative in such a case be left to be a firm among the others? The members would do business with firms they find offer the best deals. The strength of cooperatives' correcting power would be left "sleeping" to be awoken if the market becomes worse again.

Although one strength of a cooperative is in preventing potential monopoly situations, it can become a monopolist itself. In this situation, instead of collecting monopoly profits, which is against the idea of cooperatives, the cooperative is likely to decline its level of services. This situation supports the contention that cooperatives should behave like other firms in a sufficient market service

situation.

This analysis does not take into account societal benefits and costs which are invisible in profit calculations. These factors are briefly discussed later. Nor does it recognize the other aspects of the cooperatives as associations, although e.g. Wiese (1974,p.82) and Kaarlehto (1956,p.43) consider these other things as rather unimportant. For instance, the questions of ideology and loyalty make the situation much more complex.

The ability of a cooperative organization to adjust to market changes would, in principle, be better than the ability of private enterprises. The cooperatives have an established system for expressing changed preferences as well as some power given by the solidarity to control members' desires. Skar states (1981,p.80) that because of the special characteristics of cooperatives, they should in principle be able to operate with less information than the private enterprises.

Fleischman (1974,pp. 44-77) compares the entrepreneurship in private enterprises and cooperatives. He finds that the establishment of a cooperative creates new positions for creative persons. There remains the difficulty of getting a creative person chosen for the management of a cooperative by the conservative members.

The interests of the cooperative personnel

The cooperative movement is a significant employer. In Scandinavian countries, the farmers' cooperative movement can

be considered one of the largest employers. For instance in Sweden, it is the largest employer (Pestoff, 1982, p. 176).

We have already discussed the relations of the cooperative management to its employers. In this chapter, all cooperative personnel are considered.

It should be mentioned that in Scandinavian countries the nature of collective bargaining is different than in the US. The labor unions are established according to the occupation, not according to the employer. In a same firm there can be employers belonging to several bargaining associations; metal workers to one, secretaries to other. Labor unions negotiate with employer unions, not directly with employers. Thus, the cooperatives do not have special characteristics in collective bargaining. It has been stated that in the US the strike is much more powerful in cooperatives than in other enterprises, because members having their services interrupted put additional direct pressure on the attempts to end the strike.

Personnel's role in enterprises has been a common topic of the discussion in Scandinavian countries for the past 10 years. Discussion about "enterprise democracy" has even lead to legislative action in order to increase personnel's influence in their employers' decision making systems. Enterprise democracy would, at a first glance, be easily combined with other cooperative characteristics. The cooperatives should already be democratically governed. Member democracy and enterprise democracy have not been considered by cooperatives to be in conflict.

However, a cooperative is governed by its members according to the one member - one vote principle. By introducing the representatives of the personnel into the decision making system, this principle is affected. Dellenbrant (1982,p.183) states that " cooperative democracy is based on members and their interests. Enterprise democracy is based on personnel and its professional organizations. Both variations of democracy base themselves on different principles: one member - one vote and one employee - one vote."

Pestoff (1982,p.177) supports Dellenbrant's reasoning and states that there is a latent conflict based on different interests between these two groups. Pestoff believes that enterprise democracy can conflict with member democracy.

Dellenbrant states (1982,p.198-199) that despite positive attitudes towards the inclusion of enterprise democracy in cooperatives, the practical implementations have been circumvented by appealing to the "special characteristics of cooperatives". The problem of enterprise democracy is probably more difficult in producer cooperatives than in consumer cooperatives. Pestoff (1982,p.177) also points out that there are some ideological differences which hinder farmer cooperatives from joining employer organizations.

Dellenbrant (1982,p.199) believes, however, that despite potential interest conflicts and their possible development into real conflict, there is a real and outspoken will for cooperation between cooperatives and occupational organizations. In many instances the common interests of these

two movements have been emphasized. Dellenbrant recommends the definition of the areas in which either of these forms of democracies will be implemented. "The future will show if it is practically possible to separate the policy questions from other important questions in the enterprises." (Dellenbrant, 1982,p.199).

The social factors

The connections between the cooperative member influence and society are especially complex in countries such as the Scandinavian countries. Skar (1981,p.74) describes the problem area in a simple form similar to figure 9.

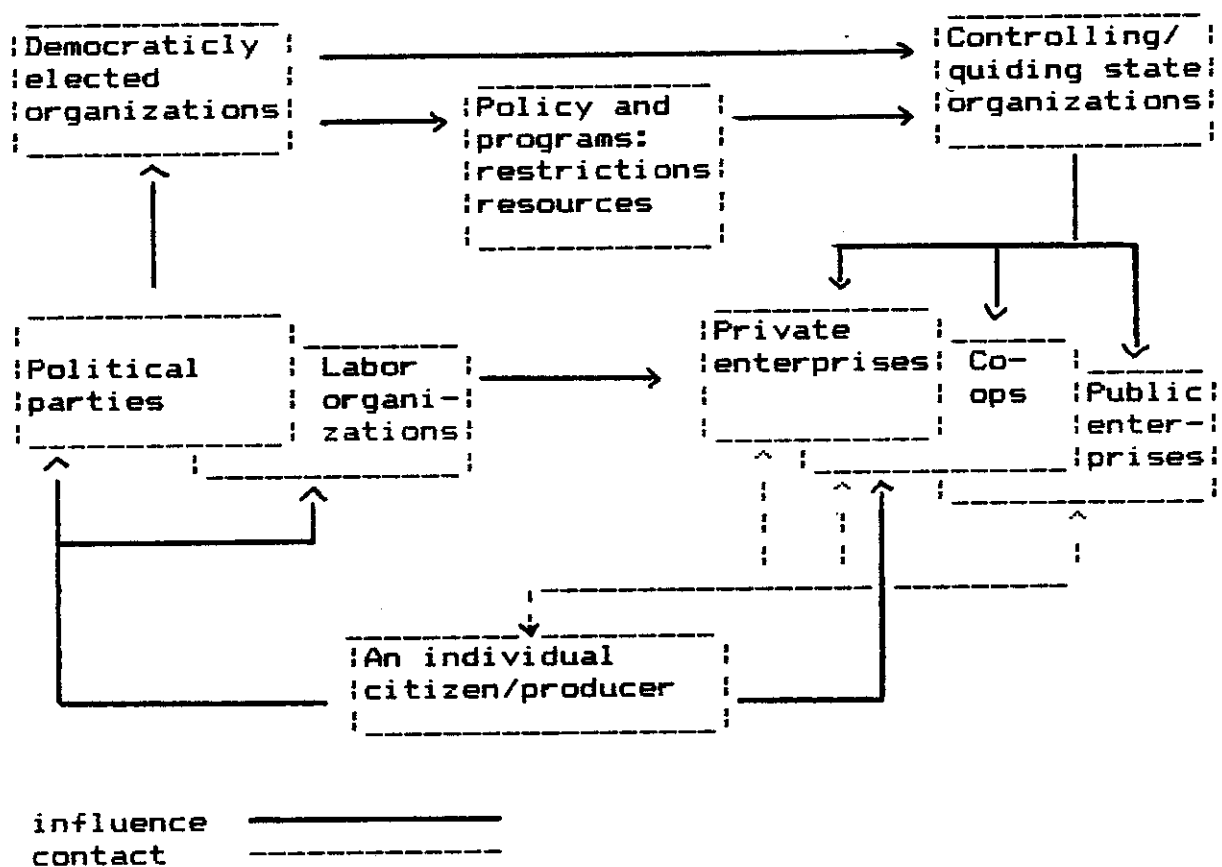


Figure 9 : The social structure and enterprises in a closed model
Source: Skar, 1981, p.74.

In Figure 9 it can be seen that an individual has in principal just three alternative ways for influence and types of participation decisions: the political, occupational and cooperatnal alternatives. As a means of influence, the political way can be considered the most indirect, and the cooperative one the most direct (measured by the number of institutions involved). Skar says that he is not stating that the most direct is the most effective alternative. The model does not take into account factors such as the time required for influence in various institutions. It also ignores the possibility of consumer influence, either individually or as a group, to the economic activities. One of Skar's conclusions is that the cooperative seems to be the only alternative in which the direct contact between participation decisions and exploitation decisions is possible.

According to Skar (1981,p.88) society can redesign the rules of a cooperative through legislation and, thus, control the behavior of the cooperatives. In Scandinavian countries there are not very many special requirements that cooperatives have to meet. But the cooperative can have bargaining power which affects all farmers. For instance, in Sweden the cooperatives have exclusive agricultural trade contracts (price and other rules) with the government.

The same situation occurs in Norwegian fishermen's cooperatives, where the cooperatives have the authority to negotiate with the government on behalf of fishermen. Thus, the cooperatives are conducting a social function in order to make sure that an industry is working in a proper way to

satisfy the requirements society has given to it, and to make sure that the industry can survive in the long run.

The cooperatives can also have responsibilities such as the obligation to deliver and to take commodities. Co-ops are also used in organizing a desired consumption alternative. For instance, the cooperative retail outlets have, in a way, a special position in servicing the most remote rural areas in Finland.

This means that the cooperative is not just an instrument for members but also has social dimensions. This means that on the one hand there are some legislative actions which recognize the cooperatives as alternative economic organizations, while on the other hand the cooperatives have a possibility to make void some of the strongest ways of market control (Skar, 1982, p.75). An important question is then to what extent the members' and society's interests coincide.

The discussion above was intended to emphasize the strong, and even increasing, connection between cooperatives and the society in which they operate. Rokholt (1982, p.157) mentions that an organization cannot live without some support from its environment. The organization's (cooperative) social output determines to a great extent the support it gets from the society.

Rokholt (1982, p.157) states that despite the cooperative's two roles, as the interest organization and as a "traditional" actor in the market, the cooperative has a third role as a semiofficial organization. This statement can be made in all

the Scandinavian countries.

Rokholt refers to the situation in Norway (the situation is similar in other Scandinavian countries), and mentions the conflict between occupational organizations and the cooperatives' role as an interest organization. The farmers' unions want to be exclusively the interest organization of farmers.

Farmers' unions and cooperatives operate as independent organizations in Scandinavian countries. For example in Finland, farmers cooperatives are given preferential position by farmers' unions, and the relations between the two are quite close. But the unions have announced that it would be unfavorable to the farmers if the cooperatives attained a monopoly position.

With increased regulation in market in Scandinavia, cooperatives have gradually become more and more administrative and less interest oriented in their operations. Rokholt mentions (p.159) the following reasons for the shift to the more administrative role:

1. The state and the occupational organizations seem to have identical interests that the cooperatives should function as administrative organizations - not as interest organizations.

The state has also found cooperatives to be good, already established organizations for exercising state control. The farmers' unions want to be the organizations which carry the information upwards to the state but are willing to let the cooperatives be organizations for the top-down flow of

information.

2. The cooperatives get support for a guaranteed market position which in turn supports the development of cooperatives as semi-official organizations. Also the farmers themselves, through their occupational organizations, act to reduce the cooperatives' role as interest organizations.

Thus, the farmers' cooperatives may not have enough incentives to resist the desires of the state and farmers' unions because their position is supported by these organizations. The farmers may act as members of a farmers union against themselves as members in farmers' cooperatives and the independence of that organization.

It is difficult to say if the farmers need two interest organizations. If they do, what would be the defined role of each of them? If the role of farmers' cooperatives as interest associations is becoming less important because of the strengthened position of farmers' unions, is that role of a cooperative even important anymore? If not, the "original" idea of a cooperative needs modification.

However, if the cooperative organization as a means of preference articulation becomes weaker, it is more likely that the cooperatives are governed from upstairs, by public authorities. This can in turn lead into decreased "market service" fewer alternatives for farmers and decreased efficiency of marketing services. This question is not completely irrelevant in Scandinavian countries.

The cooperative and its environment .

Pestoff's model of interest groups in cooperatives was

presented earlier. A cooperative needs a balance between these interest groups. If just some are emphasized (or de-emphasized), the cooperative easily changes its nature into another kind of an organization. Pestoff states (1982,p.178) that in Sweden the farmers' cooperatives are directed in their operations toward social influence and market competition rather than toward member influence and personnel relations. The same kinds of statements have been brought out by several other Scandinavian cooperative researchers (Tauriainen,1982, Rokholt,1982).

The cooperative's role as an interest organization seems to be threatened. On the one hand, the cooperatives role as interest organizations has received competition from other, "specialized" interest organizations. On the other hand, the emphasized role as an economic organization, because of increased competitive pressures in the market, has increased the impact of environment on cooperatives, at the cost of member influence.

According to Pestoff (1982,p.178):"When the cooperative organization becomes all the time further from its members, they become alien and lose their motivation for support and participation. When the members do not see any difference between their own association and private firms, they lose their willingness to show solidarity by delivering their products through the association." Thus, when the members start acting as individuals instead of a group, the future of the cooperatives becomes questionable. Earlier it was asked wheter the role of cooperatives had some value in itself after

filling its role as a corrector of the market or as an interest organization.

Besides the discussion at the micro level, there are factors affecting member influence at the macro level as well. Concentration and specialization, as well as the increase in complexity are decreasing the members ability to conduct their organizations. According to Pestoff (1982, pp.178-179) the room for independent decisions in local associations has decreased along with the gradual shift of the decision making from the local level to the centralized system. This development was considered necessary because of legislative market regulations, hierarchic decision making structure (which will have more success the more it can control the environment), sophisticated management methods and the technologic-economic development.

When more and more of the significant decision making will be either centralized or determined by competition, authorities, occupational organizations and other interest organizations (at the highest central level), there exists less and less room for independent decisions by an individual cooperative organization. Pestoff describes the situation as shown in Figure 10.

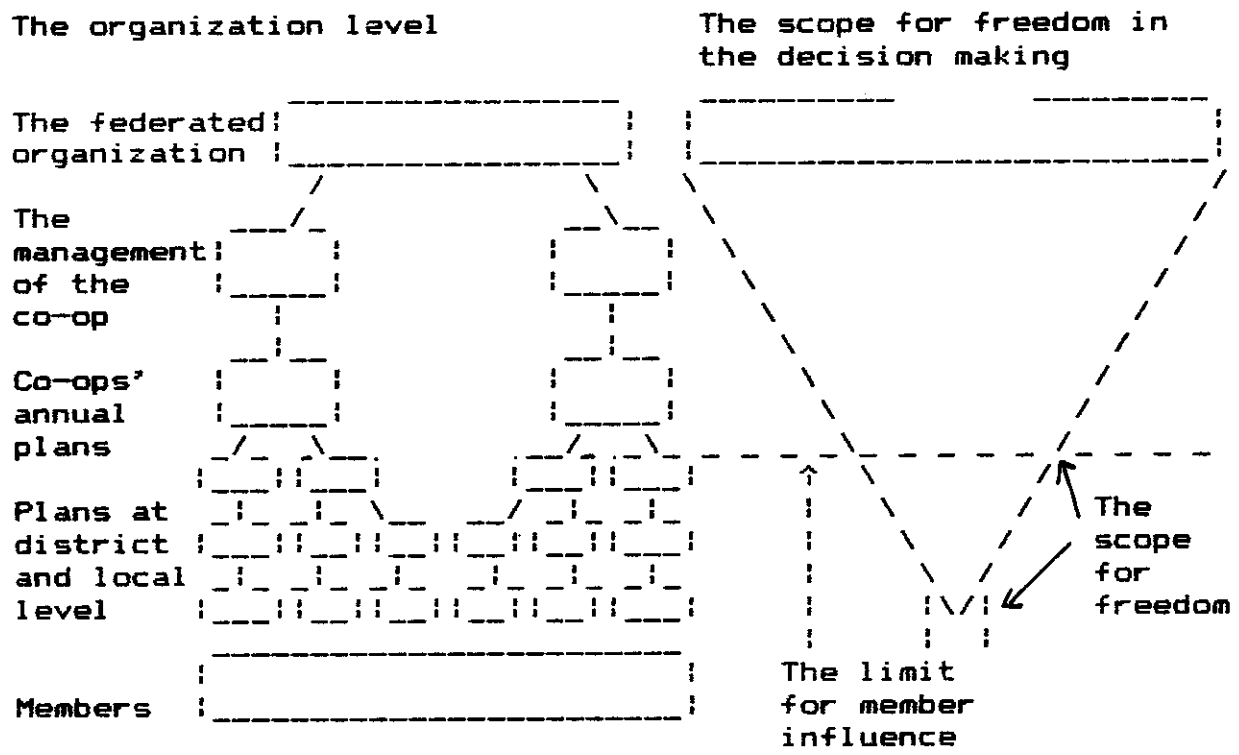


Figure 10: The relationship between member influence, the level of organization and the scope for decision freedom in a producer cooperative.
 Source: Pestoff, 1982, p. 179.

Mogelhoj (1982, p. 121) explains the situation in Danish dairy cooperatives as, "... in small dairies, the individual member has a possibility to have a relatively large direct influence in a restricted decision making environment, but in a large association, a member will have limited direct influence in a larger decision making environment." Earlier in this paper the restricted ability of a member in a complex organization was noted as a reason for this development. According to Pestoff (1982, p. 180), despite technical and economic expertise requirements, "negotiations with authorities and other interest organizations etc. also are very complex, and require full-time specialists. Finally, the regulations considering agriculture are highly technical and strongly centralized. As

a result of this kind of a system, the questions not decided by the central administrators are either restricted by their impact or meaningless, or both."

Pestoff describes the relations between the direct member influence in a cooperative and the cooperative's political influence as a function of size as shown in Figure 11.

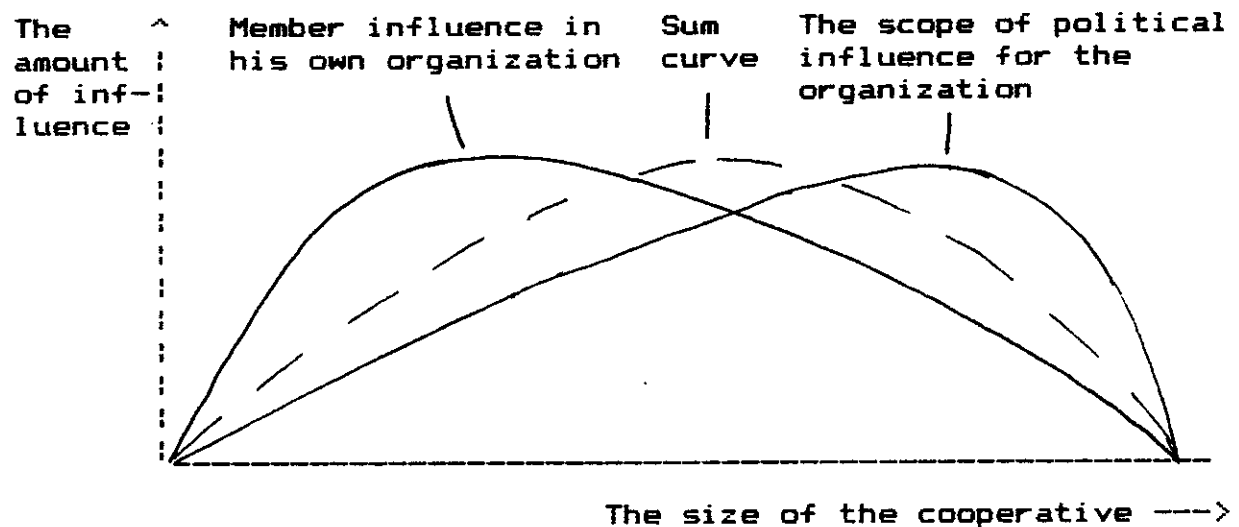


Figure 11: The member influence in a cooperative and the political influence of the cooperative as a function of its size.
Source: Pestoff, 1982, p. 191.

If Pestoff means by "member influence" their influence as a group, and not just one member's relative share of influence, questions arise such as:

What do the members do with the possibility to influence in a small organization (the member influence curve above the political influence curve)?

Who is exercising the influence when the political influence curve is above the members influence curve?

5. SUMMARY, CONCLUSIONS AND FUTURE RESEARCH

In this paper, the Scandinavian and part of the West German research on member influence in cooperatives was reviewed. The content of member influence was divided into three components: individual factors, the organization's internal factors and the organization's external factors. Each of these was examined.

Member participation and representation were discussed individually. Strict rational economic behavior did not seem to explain entirely the reasons for participation. Sociological factors such as status and "citizens duty" also seem important. Perhaps some kind of feeling about belonging to a group, especially when the proportion of farmers in the population is declining could explain some of the participation in farmers cooperatives as well.

Representation becomes more complicated when a shift from direct to indirect representation occurs. The question of the representativeness of the elected officials becomes relevant. Two dimensions of representativeness were introduced: background and opinion representativeness. Both of these are difficult to maintain. Status seems to bring the elite of the membership to the board regardless of the member structure and socialization changes earlier opinions of board members to the extent where their backgrounds do not explain the content of board members' views.

Internal factors in the organization such as conflicts, the effect of the growth of the cooperative, and decision rules were discussed. The cooperative ideal of equal treatment of members was shown to be difficult to maintain because of the heterogeneity of interests of the membership. Rational behavior of individuals was shown in some cases to be in conflict with group interest in a cooperative. Interests of different members were in conflict where, for example, with one member - one vote, the strategic importance of different members varied. The question of giving a patronage dividend allocation or retaining capital for future operations was shown to cause conflicts to such extent that the competence of member meetings for deciding the dividend allocations became questionable. The superior ability of management to obtain and use information seemed to lead in some cases to situations where the members could behave against their own interests. The various chances for conflicts in a cooperative seemed to support the superiority of theories that explicitly recognize the existence of conflicts in these organizations over theories that assume a harmony of interests among all cooperative participants.

The growth of cooperatives brings new requirements for maintaining member influence in the decision-making system. With the growth of cooperatives, member influence is affected by several new factors. The relative influence of one member declines, the membership becomes more heterogeneous and the need for expertise because of the complexity of the

cooperative operations becomes more important. It was stated that the size of the cooperative itself does not significantly affect member influence. This statement is of limited usefulness however, because of so many important factors are closely connected with the size of cooperatives.

One member - one vote is not enough to assure democracy and fairness in cooperatives. The rules define whose preferences are taken into account in a cooperative. The rules can set the guidelines for the behavior of various institutions and the procedures for controlling conflicts in the organization and for allocating dividends, but in a changing environment the members must delegate some decision-making authority to the board and management. In order to decrease decision making costs in the cooperative, the members have to accept some risk of the board and management acting against the members' desires. There are not only problems in designing the rules in order to assure that the decisions reflect the members' preferences but also in getting the preferences visible to decision makers.

The external environment of a cooperative was presented as consisting of four main interest groups: members, market, personnel, and society. The importance of cooperatives in correcting the market service was mentioned. But the importance of cooperatives was shown to decline with the improvement of market performance. The role of cooperatives in a well-performing (competitive) market remained questionable.

Probably the greatest contributions of this paper and of the Scandinavian research on cooperatives come from the sections that consider the connections between cooperatives, their personnel, and society. The increase of the enterprise democracy, i.e. increased role of workers in the decision making of enterprises, causes some potential conflicts relative to the members' sovereignty in governing their cooperatives.

The importance of cooperatives in Scandinavian countries led us to introduce a third dimension of cooperatives, in addition to economic and interest association features, the semi-official nature of these organizations in Scandinavia. Cooperatives are given many societal functions to conduct and the society is anxious to exploit these organizations, which formerly were considered primarily interest-organizations of farmers. This is made easier because farmers themselves are decreasing the importance of their cooperatives as interest organizations by strengthening the position of farmers' unions.

The ideal of cooperatives can be expressed by the balance between the above mentioned interest groups (members, market, personnel and society). If some groups are overemphasized, the cooperative is in danger of changing its nature into another kind of organization. The role of cooperatives as interest organizations seem to be in real danger. The increasing effect of the market on cooperatives' conduct and the strengthened position of competing "specialized" interest and occupational

organizations are decreasing the member sovereignty in decision making. The growth of the cooperative decreases the influence of individual members. However, the scope of the organization's decision making increases with the growth. Thus, as the cooperative grows, a member is less able to influence it, but when s/he can the decisions are likely to be more meaningful.

A conclusion from this review is that the critical evaluation of cooperatives has begun in Scandinavia, but the most important results are yet to come. The emphasis on the social connections of cooperatives in Scandinavian research adds a new dimension to the research conducted in the US. Many leading ideas in the research on cooperatives in the US, such as the heterogeneity of interests, internal conflicts and dividend allocation problems are also addressed by Scandinavian researchers. The results about the impact of the size of cooperatives were to some extent different. One reason for the differences was the different definitions used in considering the factors affecting member influence.

There is no doubt about the importance of cooperatives in Scandinavia, especially for farmers. But the actual performance of cooperatives, the possibilities for improved cooperative performance, and alternative institutional solutions to marketing problems, are not well-studied areas in Scandinavia.

In most cases the actual objectives of cooperatives are either similar to those of other firms or are in a non-measurable form. Sometimes the "amount of support by the members" is presented as a performance criterion of cooperatives. The measurement of this criterion is an almost impossible task. Fleischmann (1974,p.69) states that because of the lack of unambiguous performance measures, "The long-run increase in the sales volume of the cooperative is used as a substitute measure. If during a certain year the sales volume of a cooperative is more than that of its private competitors and if the cooperative has earned profits that allow it to continue at the same rate, one can conclude that the cooperative has provided its members better services than have other firms." If the growth of the sales volume really is the most frequently used measure of the performance of cooperatives (and of their management), this probably explains a part of the growth of cooperatives in Scandinavia.

There has to be some other incentives for farmers to join and patronize cooperatives. There are some research results about what kinds of farmers are likely to be members of cooperatives, but obtaining "the best deal" cannot be the only explanatory factor for patronizing cooperatives. There is some evidence that Scandinavian cooperatives have not always been able to meet the efficiency of private enterprises.

Research on the performance criteria for cooperatives from members', management's, and society's points of view is

perhaps one of the most important but still neglected topics in cooperative research in Scandinavia.

Turning more to the empirical level of cooperative research, the effects of cooperatives on the Scandinavian market structure, especially in the food system, needs more attention considering cooperatives' importance in this field of economy. The work of NC 117 in the US would probably provide a lot of new theoretical ideas to aid in this examination.

In many of the studies reviewed above, the rules such as one member - one vote, dividend allocation according to patronage, the role of the member meeting as the highest decision maker, etc. were criticized. Although this kind of criticism has occurred long enough for response, no such response by the cooperative movement has been expressed. What is the reason for this?

The increasing number of relevant parties involved in cooperatives, the increasing heterogeneity of members, the increasing "competition" by other interest organizations such as farmers' unions and the increased tendency by others in society to try to use cooperatives for their own purposes, have become real challenges to the traditional cooperative ideal. Either more research on the ability of cooperatives to meet these challenges in its traditional form or research on the possible modification of the traditional cooperative principles seems necessary. One of the greatest problems in the research will be the power of large cooperatives and their

consequent ability to discourage researchers from conducting a critical analysis of the pros and cons of cooperatives in various situations.

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Aksnes, K.

Member participation in farmer cooperatives.

(1982), Medlemsdeltagelse i Landbrukskooperativa Organisasjoner, Landbrukskooperationen i Norden, pp. 22-36, Esbjerg, Danmark.

Types of member activity:

- join the co-op/not join
- participation in the economic activities
- participation in the decision-making system

Possible Forms of Participation	Functions which can reflect the rate and importance of participation in an organization. (goal variables)
A. Join/not join	<ol style="list-style-type: none">1. Total number of members.2. The number of members relative to member potential.3. Organization's dependency of the number of members.4. Members' alternatives to the membership (exit-possibilities).5. Organization membership as a political resource (membership in the other organizations)
B. Participation in the economic activities of the organization	<ol style="list-style-type: none">1. Buying/selling loyalty.2. The total and relative amount of products/services bought/sold by an individual member.3. The rate of exploitation of services provided by the organization to the members.4. Organization's market situation and the importance of member participation to the competitive situation.
C. Participation to the decision-making system of the organization	<ol style="list-style-type: none">1. Members' knowledge about the organization's conditions.2. Organizations information activity vis a vis members.

- | | |
|---------------------|---|
| b. Meeting activity | <ol style="list-style-type: none"> 1. Meeting forms/meeting frequency. 2. Members' participation frequency in the meetings. 3. Members' activity in the meetings. |
| c. Representation | <ol style="list-style-type: none"> 1. The number of board members/their election. 2. The board members' role in the decision-making system. 3. Election participation/election rules. 4. Contacts with member/board members' representatives. |
| d. Direct actions | <ol style="list-style-type: none"> 1. Direct member contacts with the manager in specific instances. 2. Opinion development/opinion impact. 3. Demonstrations. |
-

A. The number of members is often considered as a measure of the power of a co-op, in society, but it is not a very good measure.

In Aksnes's study, the connections between the co-op's participation and influence in the political actions of society, the individual resources, the membership in the organization seemed to be important political resources of the cooperative.

Petitions by the members or the threat of member demonstrations are very effective ways of correcting the behavior of the co-op management.

B. For most members, economic benefits are the primary reasons to be a member.

C. "Democratic Control."

Conclusions from Aksnes's Study of Co-op Dairies

- There are no significant connections between the members' meeting participation and the size of the co-op.
- The forms of meetings and the required knowledge level restrict a significant proportion of the farmer members and board members from being active participants in the co-op.

- There is a considerable difference between the agendas of the meetings and the issues the members consider the most important to discuss.
- Members' knowledge about the major issues facing the co-op and influencing its performance was not very high.
- There is a significant difference between the management's and an average member's attitudes in central questions. Thus, many of the official attitudes, policies and activities are not supported by the majority of the members.

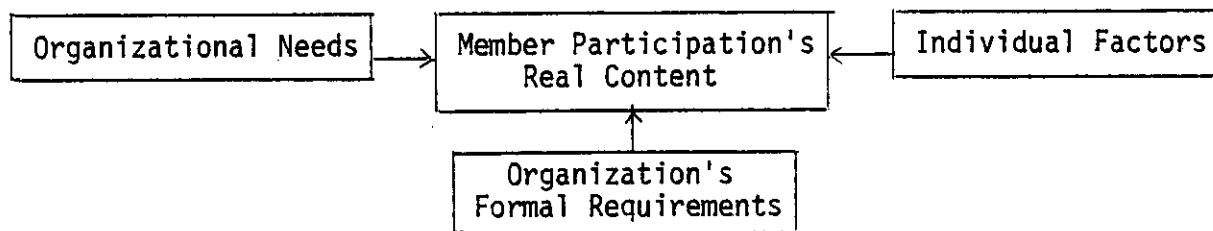
Aksnes, K.

What factors affect the participation of members in co-op organizations.

(1982), Hvilke forhold parvirker medlemsdeltagelse i kooperative organisasjoner, Landbrukskooperationen i Norden, pp. 77-88, Esbjerg, Danmark.

Two starting point questions:

- Why do some members participate in a co-op organization while others do not?
- Are there some specific factors that improve the participation in co-op organizations, or do the variations in participation between co-op organizations and between members occur randomly?



Aksnes asks:

- Which are the most important reasons for a farmer to become a member of a co-op or not?
- Which factors affect participation in the co-op's decision-making system?

He examines the last question, looking at:

- economic factors
- ideological (cultural) factors

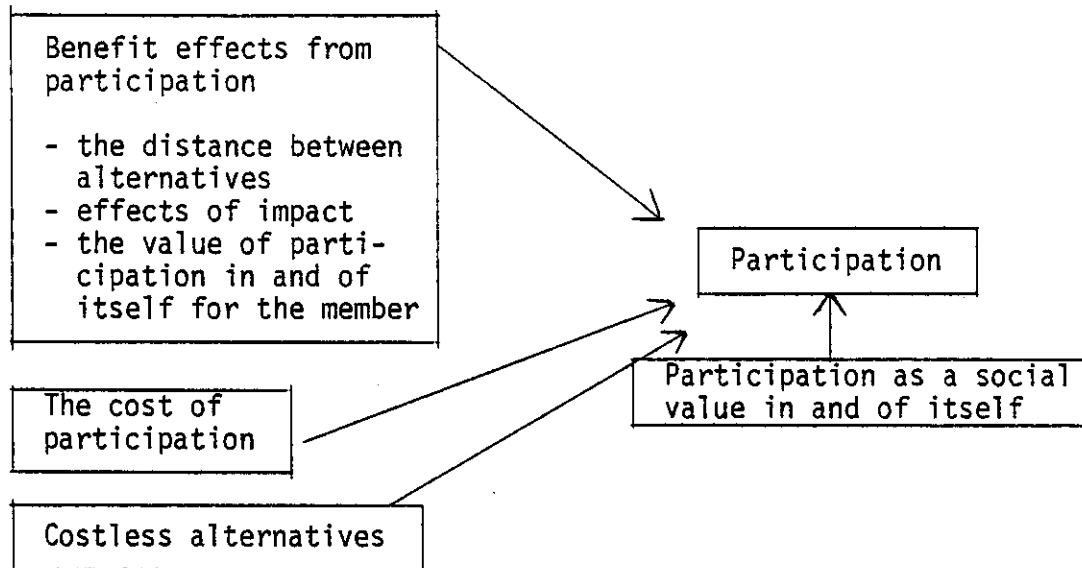
He presents a table from his study (p. 79) which shows that about 85 percent of those interviewed said that the economic factors were the most important, 13 percent said that the solidarity with others was important, and 8 percent maintained that the opportunity to affect the system was important.

Participation in the Decision-making System of the Organization

Four factors which affect participation:

1. members' interest in the area where the organization operates
2. members' interest in participation
3. members' control over his organization
4. organization's control over in its environment

(Hernes - Martinussen (1980) Demokrati og politiske resurser, NOU 1980:7, OSLO, Norway)



Factors affecting participation

- What benefits does participation bring?
How do the different members value these benefits?
- economic, social or cultural benefits

Economic Benefit Effects

Benefits can occur when a member can affect his own economic well-being through collective decision-making. Most of the co-ops collective decisions are economic in nature and will benefit or impose a cost on all the members, whether or not they participate in the decision-making.

Social Benefit Effects

Thirty-nine percent of those interviewed in Aksnes' study mentioned co-op's role in filling social needs of the members as important.

"Cultural Benefits"

Co-ops affect the general development of democracy in society.

Citizen's Duty

Another explanation of why members participate even when there are no visible benefits is that members may feel it is their citizen's duty to participate.

In the study conducted by Aksnes, the most important reasons for participating in member meetings were:

- | | |
|---|-----|
| 1. to get information about what happens in the organization, | 49% |
| 2. to elect board members, | 20% |
| 3. "It is important that the members participate," | 15% |
| 4. to meet colleagues. | 12% |

Relatively many felt that participation was a duty. This corresponds with Hernes-Martinussen's study (1981) which found that "the citizen's duty" was a good explanation of high member participation figures.

Participation Costs

"To be or not to be" a member. Delivery obligations even when prices are lower (cost). Fees. Participation costs.

If a person can get the same benefits without being a member (avoids paying fees) a free-rider problem occurs. We can also call the situation of low participation a free-rider problem. In Aksnes' study 92 percent mentioned the member control as important but a significantly lower percent really were using this opportunity. The participation cost was probably too high.

Can a member have an impact on his co-op (Aksnes)?

no impact at all	54%
a little impact	31%
some impact	9%
significant impact	3%
don't know	3%
SUM	<u>100%</u> = 563 interviewed

The political resources of an individual affect his ability to influence his co-ops.

At the information-seeking and meeting-activity levels, the education and experience in organizations were found as most important factors explaining member participation. After these came the farm size and the amount of goods delivered to the co-op.

The more highly educated members were the active core of the co-op members. Then came the members with the largest economic interests.

The members with the largest effect on the decision-making process seems to be those with high social status and those experienced with carrying out their own ideas. These characteristics have a close relationship with education and organization experience.

Dellenbrant, J.A.

Cooperation and Enterprise Democracy

(1982), Kooperation och foretagsdemokrati, Landbrukskooperationen i Norden, pp. 182-200, Esbjerg, Danmark.

If co-op personnel is granted the right to participate in co-op decision making, the co-op principle of one member, one vote is in a way threatened.

The co-op members are usually in favor of increasing the personnel's possibilities of influencing decision making within the cooperative. Some consumer co-ops have even publicly stated that "member democracy and business democracy must be joint together."¹

But there is a dilemma. "Business democracy" is based on personnel and labor unions, while co-op democracy is based on members and their interests. These variations of democracy have different principles: one member-one vote versus one employee-one vote.

This potential interest conflict has not become very visible yet and there is a real willingness in both the co-ops and labor unions to overcome the problem.

The near future will show whether co-ops and employee groups can reach some agreement about who will decide what in the cooperative.

¹But according to Dellenbrant's study (p. 198) every time increases in the decision making power of co-op personnel have been proposed, co-ops have opposed them and asked for exemptions based on co-ops' "special properties." (Enterprise democracy is much more difficult to implement in producer co-ops than in consumer co-ops).

Eschenburg, R.

The cooperative theory as a conflict theory.

Osuustoiminnan teoriaa ja kaytanta (1974) pp. 1-32, The University of Helsinki Department of Cooperatives, Translation from "Theorie und Praxis der Kooperation," Schriften zur Kooperationsforschung, A. Studien, Ban. 3, 1979.

In the 60's the first claims about the ignorance of managers' own goals in the cooperative appeared in cooperative theory.

Harmony theory vs conflict theory.

Eschenburg believes that a theory of conflict is needed to explain the behavior of a modern co-op.

II. A Co-op as a Collective Enterprise

The distinguishing characteristic of a co-op is that the owners are also the patrons of the organization. Other characteristics of the cooperative, for example, cooperatives' "double feature"--being a collectively run enterprise on the one hand, and a group of people on the other--are also attributes of other firms. It is the identity of the members with the customers and the combination of benefits and payoffs that this implies that cause special problems and distinguish co-ops from other firms. Thus, a special co-op theory is needed, which is a part of the not-yet-existing corporation theory.

The members are the highest decision makers in a collectively-owned enterprise. The members fulfill this function themselves. But fulfilling this function involves nothing more than working together, yet there is a difference, in general, between co-op theory, and the theory of collectively owned firms and corporations.

III. Cooperation and Conflict

Cooperation, acting together, collective action, whatever it is called, requires that it be based on mutual decision by rational, conscious members. This mutual decision includes deciding how the costs and benefits of the action are to be allocated among the participants. This implies conflict which has to be controlled.

A. The Contrast of Benefits in Allocation Questions

The statement that the interests of subjects are motivated just by self-interest leads us to the conclusion that the conflict cannot be controlled at all (zero - sum game), as long as all the individuals think only of themselves. Because cooperation requires the control of conflict, it seems to be possible only among these people who are willing to subordinate their own interests to the common interest. Although this statement seems reasonable at first, it is wrong. If it were correct, the transaction between a self-interested buyer and seller would occur only if one party would give up his own self-interest.

Bargaining is usually not considered as a willingness to compromise but as a feature of strictly (self) profit maximizing subjects. This view of bargaining as rapacious self-interest seeking is drawn into question. However, when both parties in a bargaining situation express their satisfaction after a deal has been struck, and let others know that they have maximized their utilities by using optimal tactics.

Solution to conflict between two parties via a market transaction is possible only if both parties benefit. The same thing applies to cooperation as well. Thus, cooperation is possible only if all the parties involved benefit. The optimal solution for all the individuals has to be found. Yet a person has to be convinced that s/he is maximizing her/his utility by joining the co-op.

Thus, a solution is optimal if it is accepted unanimously. But just because a solution is considered optimal by everyone, does not mean that all conflicts were solved. It just means that the conflicts are controlled in an optimal way.

B. Heterogenous Preference Structures

In addition to nonavoidable conflicts over allocation of costs and benefits, other kinds of conflicts can occur in cooperatives. Although cooperation without any merging of interests is hard to imagine, cooperation does not mean that the goals of all subjects are the same and that all members have the same preference orderings. As a result, members' opinions about the results of cooperation are likely to differ.

Conflicts in cooperatives can be controlled by negotiations. The parties try to find out if a common preference ordering among the action possibilities open to them can be found. Using if necessary compensation payments, the parties can often agree upon a common ordering (social preference ordering) of action possibilities. If this occurs, the conflicts are not eliminated, but are optimally controlled (with a compensation system). ✓

C. Information and Negotiation Costs (Transactions Costs)

The discussion above showed that the conflicts can be optimally controlled by unanimous decisions (if compensation is possible). Thus the system can work without problems as long as common and unanimous decisions are made. This conclusion is not changed by the fact that uncertainty about the future in a dynamic economy requires new, common decisions all the time.

Every time when, because of unpredicted or unseen reasons, the position of co-op parties changes unevenly, and/or the number of parties change and/or new action opportunities occur, the optimal allocation system and the social

preference ordering change. Thus, whenever these changes occur, new unanimous decisions about the optimal control of conflicts have to be made.

The unanimous decision is a function of transactions costs (which are not examined here). Before a unanimous decision can be made, information must be gathered, stored and computed.¹ If the transactions costs are increasing faster than the number of parties involved, they can very quickly become higher than the benefits of cooperation.

If there is a possibility of decreasing the decision-making costs through relying on a decision rule other than unanimity, rational members of the cooperative consider this alternative when the cost of reaching unanimous decisions increases. Because this possibility exists--as illustrated below--the rationality of self-interest maximizing subjects requires, that just a few, if any, common and unanimous decisions are made.

D. Decreasing the Decision Costs Through Organization

Decision-making costs can be decreased when the number of decisions on the one hand, and the costs per decision on the other, are decreased. The number of decisions can be decreased by replacing decisions about individual situation with global decisions (agreeing on rules for making decisions). When implemented in the allocation problem, such rules imply, agreement about an allocation "key," which automatically solves allocation problems in the future.

The cost per decision can be decreased by delegating decisions to an institution consisting of only a few people. But when the conflicts in some decisions are not solvable, common decisions can be made cheapest as majority decisions. In this case, low decision-making costs are preferred to the "optimal control of conflicts," where "optimal" is defined as above.

¹Shubik, M. (1953) pp. 145-150, "Information, Theories of Competition, and Theory of Games," The Journal of Political Economy, pg. 60.

Even when the co-op abandons the optimal control of conflicts, the formation of preferences usually requires organization. Thus, after members initially agree to cooperate, a decision about an optimal organizational structure has to be made. The behavior of individual members then does not directly affect the common decisions, but it does so indirectly through the common decision-making rules.

Generally we can say that the rules of an organization define the relations among the cooperating parties. The rules define the current positions of members, and the positions cannot be seen independently of the structure of the organization. The decisions of individual subjects can be logically usually derived from their situations. Thus, by changing the organizational structure of the cooperative, the behavior of the members can be affected.

E. The Conflict Theory vs. the Harmony Theory

A theory that tries to explain the behavior of an organization has to be based on the actions of the members of the organization. The organization does not act by itself; it is the members who act. Such a theory can be based on the hypothesis that members interests are always in harmony. Before adopting that hypothesis, however, we should examine whether the (optimal) organization structure is always able to define the situations of the members so that the members are logically ready for cooperative actions.

Conflict theory also includes the possibility of harmony. There are two kinds of conflicts in cooperatives, similar to those other collective organizations:

1. horizontal conflicts, which are conflicts of interest inside different institutions, e.g., conflicts among members at member meetings, or among the members of the board of directors; and

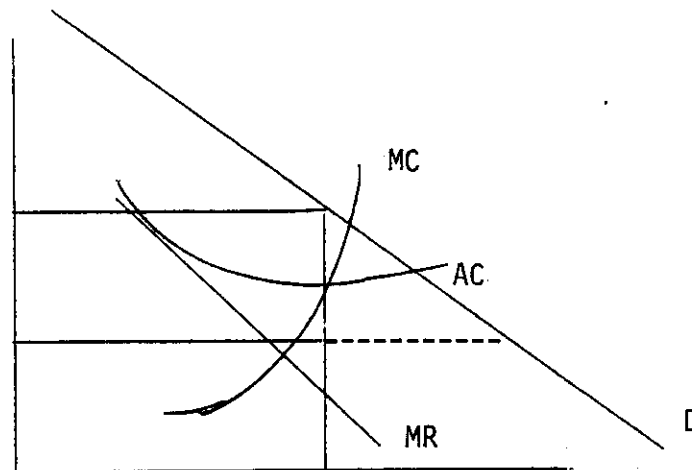
2. vertical conflicts, which are conflicts between different institutions.

IV. Horizontal Conflicts

A. The Anticipation Problem

Although the principle of allocating net benefits in accordance with patronage should guarantee that the individual and group benefits of cooperation should be consistent with one another, a conflict between them still exists when the temporary and final prices charged by a co-op differ.

Kaarlehto (1956) describes the situation as follows:



The group profit maximization can be reached only if the members do not take into account the individual payoff to expanding output. If the members do take this payoff into account, the group profit maximum is not reached.

If an individual member assumes that all the members will restrict their purchases to the level that would obtain if the temporary price were permanent, then that member can increase his profit by increasing the quantity he buys.

When the number of members increases, the opportunities to act in this way without being noticed increase. As a result, in large co-ops "solidarity"

is lower than in small ones. Thus, it is questionable whether allocating benefits according to patronage is optimal in large co-ops.

B. "EDEKA" - System and the Restricted Access to Information

There is a paragraph in the rules of co-ops (in W. Germany) which gives to the board of directors the authority to forbid announcements if they can affect the taxation of the cooperative. This paragraph can be used against an individual member. The management can base the restriction of information on the possibility that the information can go to outsiders, e.g., competitors. This kind of a rule can be considered as a sign of a vertical conflict within the cooperative.

V. The Conflict Between Managers and Members

A. Missing Member Decisions

The member meeting is the highest decision-making body in a co-op. It can even make decisions detrimental to institution charged with implementing the decisions. Thus, in principle all the conflicts in a co-op could be resolved according to the power relations embodied in the member meeting.

If the assignments given to employees outlined all contingencies and if monitoring of employees were perfect, there would be nothing to examine in the area of member control. The employee, however, can act for the employer only if s/he is aware of the employer's interests. Can the employee always get the information needed? It can be shown that members of co-ops are not willing and sometimes not even able to express their preferences.

In situations of uncertainty, detailed assignments about the general management of the organization can not be given. Unexpected situations require fast decisions. The member meeting cannot always be available to resolve these decisions.

Transaction costs of reaching a group decision among a large membership can become excessive as well. The board and management have no other choice than to take a risk that some of their decisions may go against the members' interests. Because of the high transactions costs involved, members would resist an arrangement whereby the board would always ask detailed instructions from member meetings. Maximizing benefits of members requires that the board decide, even at the risk of acting against members' interest. By relying on management and the board to make these decisions, the members are in this case choosing the less onerous of two alternatives.

In all these cases, the board or the manager cannot resist acting against members' interests even if they wanted to. In every case when the management is not aware about the members' preferences, the so-called "trusted man" hypothesis (the hypothesis that representatives always faithfully reflect their constituents preferences) can not explain the behavior. The membership meeting usually occurs just 1 or 2 times a year. A Swedish study found that just a few of the board members had no contacts with their constituents between the meetings (Nilsson, B., 1979, Fortroenvld i en Storforening, Uppsala).

B. Influencing Member Decisions

As with all economic decisions, the decisions of members depend on the amount of information available to them. Thus, the manager can affect the decisions through selective information. The question therefore arises, to what extent can the manager further his own interests against the interests of members when the members are the formal decision makers? Generally, the facts suggest that the manager does so more often than not.

Examination of the facts shows that it is easily possible the members make decisions, prepared by the management, which actually are against members' interests. Inquiries from outside the cooperative prevents this situation to a certain extent.

C. There is a Critique of "Revolving Funds" in U.S. Cooperatives

Gerd Fleischmann:

The Competition Theory and Co-ops

Kilpailuteoria ja osuuskunnat, pp. 44-77, Osuuskunnan teoriaa ja kaytanta, The University of Helsinki, Department of Co-ops, Translated from "Theorie und Praxis der Kooperation," Schriften zur Kooperationsforschung, A. Studien Band 3, 1972.

In countries where market coordination and competition prevail co-ops are appreciated because they are considered to be able to correct and compensate market biases. One of the reasons for these positive attitudes is that people equipped with few economic resources have been able to use cooperatives to compete successfully with other, more economically powerful, agents.

There have been principally two alternative ways how this has happened:

1. The individuals organize an economic counterpower by restricting their mutual competition through establishing a defensive cartel. Galbraith has incorporated co-ops into his concept "countervailing power." In fact, there are relatively few co-ops which have developed the way of bargaining associations. If just this kind of co-op existed, there would be hardly any need for cooperative theory. The cartel analyses in theory of competition would have been enough to explain cooperatives.
2. The other way to counteract the superior power of suppliers and demanders is to reduce their power by establishing a competing firm. Most co-ops in the market economy have chosen this procedure.

If co-ops were not expected to behave any differently than other firms the fact that a co-op could succeed as a new competitor in a market would not give rise to any theoretical inquiries. Economic theory, however, starts from the assumption that firms maximize their own interests the question

arises, what differences occur if a firm conducts its business according to the interests of its customers? This does not run contrary to the general ideas of economic theory, which allow all satisfactory explanations based on the simplifying assumption about the individuals' benefit maximizing behavior. The cooperative firm works to maximize the benefit of its members. That is because the owners and customers are identical.

This identity of the owners with the customers, however, differs so much from the "general framework" of the theory of the firm that the question of how the cooperative firm behaves towards its customers and how it should behave, is one of the central questions addressed by cooperative theory.

The other question, about how the behavior of a co-op affects market competition processes has not been examined very much. Discussion of this topic has been avoided by assuming that the cooperatives members do not patronize other businesses than the co-op. Ignoring this problem would have been understandable, if one could assume that co-ops would eventually beat all their competitors. This, however, occurs very seldom, even though the benefits of cooperation described in co-op theory are such that one would expect that firms maximizing their own benefits could not compete. This conflict between co-op theory and reality has attracted the attention of just one researcher (Wiese, referred in the other appendix).

I. Co-ops and the Optimal Intensity of Competition

So far we have just examined the notion that because of co-ops, market competition either becomes restricted in the case of bargaining associations, or because of the increases on the "counterside" of the market (in the case of buying or selling co-ops), establishment of a new firm. Kanzenbach¹ has

¹Kanzenbach, E. (1966), Die Funktionsfähigkeit des Wettwerbs, Gottingen, Germany.

argued that co-ops are able to intensify competition just in the case where polypolistic competition has prevailed before the co-op was formed.

What were his reasons for such a statement?

Following price theory and welfare economics, Kantzenbach states that the static functions of competition, such as income distribution according to market supply, production according to buyer's preferences, and the flow of capital to more profitable investments, occur optimally in homogenous polypoly. Similar to Shumpeter, he regards technical evolution and adjustment elasticity, which are dynamic functions, as more important than these static functions. Thus his analysis examines just these dynamic functions.

The competitive intensity = the speed the competitor "eats up" the profits derived from technical innovations.

An innovative polypolist does not threaten its competitors because it can draw just an insignificant portion of the total demand. Because the incentive to innovate is not high, innovative profits do not decrease quickly. In other words, the intensity of competition is low. But in the oligopoly situation, an innovation implemented by a competitor affects the position of others significantly. The threat this innovation poses to other producers' existence forces them to quickly imitate the innovator. The profits from innovations therefore decline quickly. In other words, the (potential) intensity of competition is high. Kantzenbach also mentions that because of lower profits in polypoly than in oligopoly, the pressure to imitate is less and thus the investment possibilities are less than in the oligopoly.

From this examination Kantzenbach derives his recommendation to redesign polypolies into wide oligopolies. The latter is a market form in which the changes in the demand resulting from innovation are considerable for producers but in which the number of actors is still large enough to avoid informal

agreements to restrict competition. According to Kantzenbach one way to do this is "... weak coalitions, such as buying and marketing co-ops, marketing associations, etc., ... supported by economic political means so ... that their number and mutual independence remain large enough to be able to make workable competition possible." In this case the coalitions still have to be tight enough to restrict mutual competition among members of a cooperative. In such a way the number of buyers in the market decreases and, thus, the mutual interdependence increases.

a. The Intensity of Competition and Co-ops

Let us begin by assuming that Kantzenbach's theory of the intensity of competition is very close to reality. Let us examine if the co-ops (buying or selling) are able to produce results similarly presented by Kantzenbach. Kantzenbach calls for weak coalitions which still are able to act as unanimous demanders or suppliers. What kind of co-op fulfills these requirements?

Fleischmann suggests that the so-called "ideal type" co-op presented by Ohm could be suitable for this. This type of a co-op requires that the members buy or sell products through the co-op but maintain full independence of their own firms the full freedom to be a member or exit.

For simplicity, just a buying co-op is examined in the following paragraphs. Let us assume that the food retailers in some towns are engaged in a heterogeneous polypolistic competition in their buying and selling activities. Some of the retailers establish an "ideal type" co-op, which is able to give them significant price reductions in their food purchases. Does the intensity of competition with the nonorganized retailers increase?

The organized retailers are able to decrease their prices or, e.g., increase their advertising. Because a large group, not just an individual retailer behaves in this way, the changes in the demand facing other retailers

can become considerable and force them to readjust either by imitating the organized retailers' innovations through becoming a member of the co-op, or by establishing another co-op. (They can also try to force the wholesalers to decrease the price). Supposing that the readjustment leads the majority of retailers to organize independent co-ops or similar voluntary chains. Does the competition among retailers become more intensive, according to Kantzenbach, in the future as well as the present?

Fleischman believes that as long as the co-ops maintain a weak, ideal-type form, this will not happen. Despite the co-op innovations, all other innovations still depend on each individual retailer. The situation is different, however, if a more integrated co-op is formed instead of an ideal-type one. In an integrated co-op, the management has some authority to affect the members' businesses. Innovations at the retailer level that are considered useful by the co-op management can be imposed in all stores. This is only possible where many competitors are capable of implementing the same strategies, which, according to Kantzenbach, is unlikely in polypolies.

Assuming that Kantzenbach's theory is close to reality, joining retailers into weak, 'ideal-type' co-ops would not increase the intensity of competition between the groups. But this is likely to happen, if some more integrated co-ops are established.

b. The Theory of the Optimal Intensity of Competition
and Some Empirical Tests

The question examined in this section is whether Kantzenbach's statement that wide oligopolies provide the best incentives for technical innovations has any empirical support.

In the U.S., high correlations between the rate of concentration and the level of R & D expenditures were reported. But Scherer¹ pointed out that if different potentials for technological opportunities in different industries are taken into account, the correlations become significantly lower. It could be supposed that if the concentration rate is high, the negative effects of an oligopoly on static efficiency are not compensated by the dynamic advantages of the oligopoly.

Only taking the technological potential into account might lead one to believe that economic concentration is the cause of development. On the other hand, if the innovation potential in an industry is high, an intensive innovation process is likely to occur, which in turn could lead to a large variance in firms' rates of growth in the market. This could result in a shift from polypoly to oligopoly; thus, the causal relation could be the reverse of that outlined above.

The arguments outlined above are not meant to deny Kantzenbach's recommendation that concentrated oligopolies should be avoided, but they draw into question his other recommendation that polypolies should be restructured into wide oligopolies. If there really is a difference in the potential possibilities for technical development joining atomistic firms together probably does not increase development significantly, but it may reduce static efficiency.

There is not yet any clear answer whether Kantzenbach's hypothesis is correct or not.

¹Scherer, F. (1967), Market Structure and the Employment of Scientists and Engineers. AER, Vol. 57, pp. 524-531.

c. The Hope and Fear in Innovation and Imitation

Kantzenbach does not separate the diffusion speed and the rate of exploitation of innovation potential as two separate dimensions of technical development. In the following, let us start from the assumption that the polypoly and oligopoly industries under consideration do not have their own R & D activities. Rather, the technical development would be included in the products they buy. This assumption is just to eliminate the impact of the size of firms on R & D expenditures.

The purchased products would be able to include process innovations and allow each firm to reach the optimal plant size. Product improvements would have the same impact on all firms, and all firms would be able to finance these improvements.

The comparison of the development between the industries depends on: (1) the number and type of innovations offered by the innovative industry that are adopted by active firms in a way that forces passive firms to imitate the active firms (the innovation potential of the industry) and (2) how long it takes before the innovation in consideration is generally adopted by industries (the speed of diffusion of innovation).

According to Kantzenbach, the diffusion potential depends on profit opportunities created by the innovation and the risk of losses if the innovation is not adopted. In polypolies, the profit opportunities are larger, but in oligopolies the risk of losses is larger. Kantzenbach states that the impact of the risk of losses is more important than the profit opportunities. Fleischmann thinks that even if this statement is true, Kantzenbach's examination of the question is biased. Innovators are usually the ones examining profit opportunities while imitators are the ones forced to consider the risk of loss.

While examining the diffusion of a successful innovation that has already been adopted by the most active firms, it is realistic to emphasize the risk of loss. The later the adoption, the smaller the profit.

The case is different among the active firms. Profit expectations dominate. But the first adopters can have some risk of losses because the newness of the innovation. Thus, in the case of oligopolies, the "early imitator" can be in the best competitive position.

The meaning of profits and losses becomes different if imitation is not possible. This occurs if innovations come from firms' own R & D and are protected by patents or licences. In this situation the impossibility of a firm directly imitating the innovation must be compensated for by the firm's own R & D efforts. Thus, the risk of losses affects firms' own R & D decisions as well.

In the following part of this summary, innovations occurring in the "beginning stage"--industries in the chain are examined.

d. The Speed of Diffusion in Oligopolies
and Polypolies

Why would the proportion of spontaneously innovating entrepreneurs be higher in oligopolies than in polypolies? Assuming that the innovative characters among the entrepreneurs are equally distributed in both oligopolies and polypolies, no differences in the speeds of diffusion would be noticed. For a passive competitor, it makes no difference if innovations originate with an oligopolist having a 10-percent market share or with ten polypolists, each having a 1-percent market share.

It is a different situation if the competitors react just after the success of the innovator has increased others' profit expectations. Because of the better flow of information in an oligopoly the success of an oligopolist

in this case affects competitors more than the success of a polypolist. Because of that the first stage in the diffusion of an innovation will take longer in a polypoly than in an oligopoly.

e. Exploitation of the Innovation Potential
in Oligopolies and in Polypolies

Are there in a polypoly enough early adopters who can create the fear in passive competitors necessary to make them innovate? Could there be a danger that innovations could not "break through" at all in polypolies? If this were true, not only would diffusion of innovations take longer in polypolies, but the exploitation of innovation potential would be less in this market structure as well.

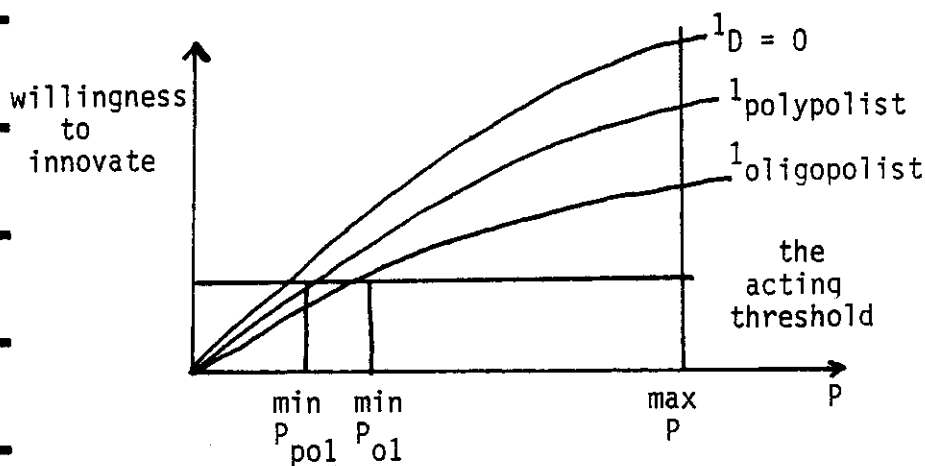
Assume that the fear of losses does not initially affect the decision to innovate. The willingness to innovate or adopt an innovation depends solely on the increase in the profitability possible with the innovation.

Let us examine a case of a potential innovator at first. An oligopolist has to take into account a lower price elasticity of demand than a polypolist and thus the expected increase in the profitability due to the innovation will be lower than in a polypoly. In a homogeneous polypoly, a potential innovator does not have to expect a decrease in the price level in the short run because of an innovation.

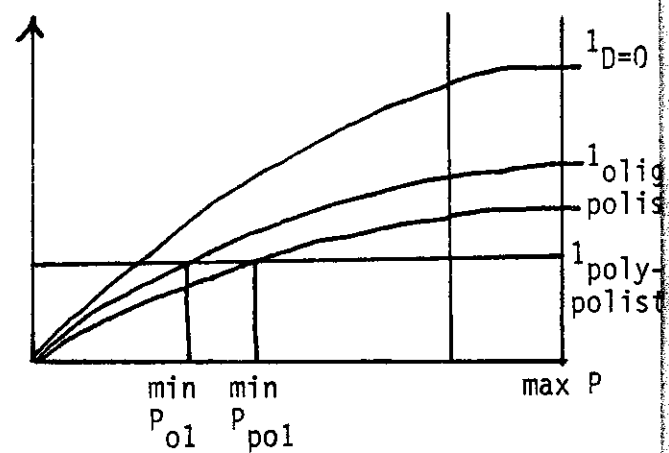
The short run impact is, however, less important to the innovator than whether his competitors imitate the innovation and if so, how fast. (Kantzenbach does not consider this). If the diffusion occurred instantaneously in the polypoly no increase in innovators' profits would occur even if the price elasticity of demand were infinite. Thus, profit expectations have to be based on the differences in diffusion speeds.

Let us assume, similar to Kantzenbach, that during the first stage of the diffusion process, when profit expectations are high, the time during which an innovator can benefit from the innovation is shorter in oligopolies than in polypolies.

If this is correct, potential innovators in oligopolies expect fewer profits from their innovations than do innovators in polypolies. The potential innovator therefore exhibits less willingness to innovate in oligopolies than in polypolies.



A. The Case of An Innovator
technological innovations
potential



B. The Case of An Imitator
 $D = 0$ means that the diffusion
speed of an innovation is 0.

The willingness to innovate does not always lead to innovation decisions. In polypolies, the potential innovator is willing to implement more innovations than in oligopolies ($P_{\text{pol}}^{\text{min}} - P^{\text{max}} > P_{\text{ol}}^{\text{min}} - P^{\text{max}}$).

Let us consider the situation of a potential early imitator (see figure B). Because an imitator's profit expectations are lower than those of an innovator, his willingness to innovate, in a situation where the diffusion speed is 0 the curve labeled $D = 0$ is lower in figure B than in figure A.

In considering the decision to imitate, not just the differences in diffusion speeds between the two market structures but also the differences in market participants' knowledge about the innovator's success have to be taken

into account. We can suppose that an oligopolist is better informed than a polypolist. Better information in the oligopoly about the benefits of the new production method has a positive effect on the early imitator's willingness to imitate. Thus it is possible that the positive impact of higher diffusion speed in an polypoly is more than compensated for by the better information available in an oligopoly about the innovator's success. Thus, in an oligopoly, an early imitator can be more willing to innovate than in a polypoly (in the case of equal process innovations).

It is also possible that new process innovations are more widely adopted by individual polypolists but that more innovations in total occur in oligopolies.

Potential early imitators adopt innovations later in polypolies, but they still adopt them. If it is true that in the real world polypolists get their innovations primarily from innovator industries and only secondarily from their own R & D, restructuring polypolies into large oligopolies could hardly cause significant increases in the early imitator's willingness to innovate.

We still have to examine what kind of innovation opportunities exist in oligopolies as compared to polypolies. Kantzenbach bases his preference for wide oligopolies on, among other things, the statement that profits are higher in oligopolies and that therefore there is more room for innovative investments in oligopolies than in polypolies (Bain, Scherer, Galbraith).

Kantzenbach does not present any empirical basis for his statement about higher oligopoly profits; he probably just bases it on the results of static price theory.

A higher intensity of competition can occur in oligopolies than in polypolies because the profits of innovations are eaten up faster. It static

profits are higher and dynamic profits lower in oligopolies, a higher profit can occur in oligopolies only when the static profits stages dominate in both oligopoly and polypoly, i.e., when innovations are implemented relatively rarely. In this case the higher diffusion speed does not seem very interesting.

There is another reason why profits may be higher in oligopolies. The variance in efficiency among firms in an industry is often quite large, and is higher in less concentrated industries than in concentrated industries. This suggests that the variance in profits is higher in polypolies than in oligopolies. Because innovative polypolists are likely to have received higher profits than others in the past, the lower average profit in the polypolistic industry would not hinder innovators and early imitators from obtaining financing. In the next stage of diffusion the situation would change: the fear of bankruptcy forces all firms in oligopolies to imitate the innovators. In a polypoly, however, a lack of financial resources may often limit the extent of imitation.

Thus it can be expected that in a polypoly the diffusion process does not reach all firms. These firms have to exit sooner or later.

It can be concluded that Kantzenbach's theory has not shed new light to the cooperative's role in the dynamic functions of competition. But it has raised a problem that is often ignored. Cooperatives are usually studied just in terms of their effect on static efficiency. The the more important political economic question of how co-ops affect the dynamic functions of competition, is rarely examined.

II. Co-ops and an Entrepreneur

(First there is a discussion about the ability to explain market behavior by structure and what the definition of "conduct" is, etc.).

"If the market structure is unable to explain behavior, the solution should not be abandoning the attempt to explain behavior but a new attempt to make a better theory to explain behavior."

(Then he talks about Shumpeter's entrepreneur)

Ernst Heuss (1965, Allgemeine Markttheorie, Tübingen) has made the examination of entrepreneurship more "respectable" by analyzing the connections between market form, the type of entrepreneur, and market life cycle.

It is true that the increased profit in oligopolies increases the probability of new entrepreneurs, if barriers to entry have not increased. If the potential entrant is an imitating entrepreneur who simply adopts traditional production and marketing methods and who is willing to obey the "friendly" behavior, he is likely to elicit no reactions from the existing firms. An imitating entrepreneur's entry to the market consisting of conservative firms does not, however, change the dynamic performance of the market.

But if a creative, innovative entrepreneur enters the market, the effects are different. His intention is not just to get a portion of the existing industry profits but to succeed on his own terms. If he is to penetrate the oligopoly market he has to take into account the reactions of competitors, who may work together in a joint counterstrategy.

If a creative potential market entrant has to choose between entering the lower-profit polypoly or the higher-profit, mature or stagnant-stage oligopoly dominated by conservative entrepreneurs he is likely to choose the polypoly. In contrast to the imitating entrepreneur an innovator does not need high industry profits as an incentive because he plans to make his profits by the innovation. In the polypoly, the creative entrepreneur does not have to be afraid of competitors' reactions and he can capture the profits from his innovations himself.

Do we have to conclude from this analysis that co-ops are unable to improve the dynamic performance of a polypolistic market if the market is in the mature or stagnant stage, dominated by conservative firms? If co-ops are considered simply as a way of oligopolizing markets then the answer is yes. But co-ops do not necessarily have to lead to oligopolization. Co-ops have other impacts in addition to changing the market structure.

In a stagnant market with conservative entrepreneurs, improved performance would depend on the ability of creative entrepreneurs to find an attractive business in that market. But why would they penetrate a stagnant market if there were plenty of rapidly growing markets? Although there are examples of the penetration of stagnant markets by new entrants, we cannot rely solely on these examples to build a theory of market change. To do so we must go beyond the usual identification of the firm with the entrepreneur and examine enterprises other than just the entrepreneur-owner type.

Creative persons can penetrate a market by means other than just establishing enterprises.

A creative person who wants and is able to establish a firm pays primary attention to his scope for independent action in the market. A creative person who seeks upward mobility in management, on the other hand, is more concerned with his room to maneuver within the firm than in the market. Related to these two statements are the facts that growth of a business is more likely in a rapidly growing market, while the possibilities of career advancement are better in rapidly growing firms than in stagnant ones.

In a manner similar to a creative entrepreneur-owner succeeding in a stagnant polypolistic market, a creative person may advance rapidly in a firm where no competition among creative persons exists. But in reality such possibilities for advancement are rare. Family firms as well as conservative firms

often dominate stagnant markets. As a result persons outside the family are seldom taken into top management.

Would the creation of a federation (cooperative) of family firms in a polypoly increase the opportunities for creative and motivated people from outside the families to move up into top management? If so, this kind of joining together would be likely to attract creative people.

The specialization that occurs when firms join together creates more positions and increases the opportunities for career advancement. If, however, the same families were the sole sources for recruiting personnel, no improvement would occur. But by creating the association, family connections are weakened; it is now not as easy for a member-owner, through his/her individual decision, to install an offspring in. S/he needs the approval of the other owner-members, to whom the success of the firm is more important than the success of the family. Thus the possibility for outsiders to advance into top management increases.

There is a similar tendency in marketing and buying co-ops. The establishment of a co-op creates new manager positions. In the past it was, however, common to fill these vacancies just with members who conducted these positions as trustees. When the co-op grew, this, of course, became more difficult. At the present time, usually these jobs are conducted by hired managers.

Because of co-ops creative persons have obtained much better opportunities to move into management than before. But a creative entrepreneur who leads a co-op is likely to have expertise not at the members' market level, but at one stage either before or after the members' level. If conservative family firms dominate these stages of the market, the existence of creative managers can be desirable, but we still have to consider how innovative

proposals are implemented at the members' level. The situation cannot be examined without looking at an integrated co-op. In such a co-op the position of management is strong enough to affect the actions of the members in a way that forces these conservative firms to adopt innovations.

Another question to examine is whether co-ops exploit these opportunities for innovation.

1. Do the members choose a creative person to be the manager of their co-op?
2. Will the creative co-op managers be interested in implementing innovations among conservative members?
3. Are the creative co-op managers able to implement innovations among the members?

In principle, one would expect that the members would not oppose having their cooperative business managed successfully. But when the board of directors consists both of elected representatives and full time administrators, there is a danger that the elected board members might feel that they would have little authority compared to a creative manager, and therefore oppose hiring one. On the other hand, if the co-op is successful, the prestige of the board increases. If there is a manager's position vacant, hiring a creative manager becomes possible. One obstacle to doing so can be the salary the creative candidate demands. As a result, a co-op probably has to reach a minimum size before it can afford to hire a competent manager. Members often oppose allowing "their" manager has to have a higher income than they have.

The problem of salary can be solved by offering a small base salary and making the rest of the salary dependent on the success¹ of the co-op. This arrangement would frighten a creative manager, on the contrary, it would be

¹How can it be measured?

consistent with his ambitions. The situation becomes more difficult if a creative manager can only be hired by replacing an existing manager.

Frequently, the level of demand facing conservative entrepreneurs is not high. As long as the co-op does not show worse results than those of competing firms, conservative members do not see any reason either to switch or to merge with other co-ops.

Even if a creative manager is chosen, the co-op may fail to provide the other incentives necessary for the creation of innovations in a polypolistic market.

III. Co-ops and the Innovations of Members

Whether a manager attempts to implement innovations depends to a great extent on the goals of the co-op manager and on the environment. The goals of managers are highly restricted by social expectations and sanctions. "Success" is one of the strongest of these social expectations. If, as McClelland believes, innovative persons have a high level of work motivation, their attempts to achieve success are not simply a reaction to social expectations, but originate from within.

Persons who have a strong need for success for its own sake favor entrepreneurial professions because in these professions a person can obtain relatively frequent and unambiguous measures of success. How can a co-op measure its success? According to co-op theory, a co-op can do so by measuring the amount of support the organization gives to its members compared to the support they could obtain from competing firms. This measure of success is not easy to operationalize. If the exact and unambiguous definition of profit is difficult enough in private firms, defining "the amount of support" provided by a cooperative is in most cases a hopeless task.

As a simple substitute measure, the long-range growth of the sales volume of the cooperative is supported. If the sales volume increases in a certain year faster than that of private competitors and if the co-op earns enough profit to maintain the growth rate, this is a sign that the co-op has offered better services to its members. There are no empirical studies that measure the rate of contribution of a co-op manager to the co-op's success, but co-op managers are probably rewarded in a manner similar to that used to reward managers of private firms. In private firms the most common criterion for evaluating a manager's success is usually a weighted sum of sales volume and profits, where sales volume is given the greater weight. Therefore, it can be assumed that the long-range growth in the sales volume of a co-op is the dominant way of measuring the success of a co-op manager.

The incentive for the manager to implement innovations among members therefore depends on the innovation's contribution to the co-ops' growth. Let us look at innovations closely connected to the transactions between members and the co-op. If new, improved products appear which the co-op could potentially sell the manager, like his private competitors, will be interested in getting the members to buy these products. These products allow an increase in the co-ops' sales volume because their price--e.g. of an improved seed--is higher and the demand is not lower because of improved quality; or if the price remains the same the members will buy more.

But are not the co-op's competitors also promoting some kinds of innovations? Often this is so, but co-ops have two advantages. If the competitors are conservative family firms, a creative co-op manager can get more innovations accepted among potential customers (members). But even if the competitor's ability to promote innovations is equal to that of the co-op manager, the members may trust the co-op manager's information more than that of his competitor.

When introducing innovations, co-ops may be particularly effective in influencing important opinion leaders, who operate at the same level as members. It is easy to influence them if the manager can get these opinion leaders on the board and other decision-making institutions of the co-op. (Getting them elected usually would not be a problem). The private entrepreneur can also work through opinion leaders, but a co-op manager has a better chance of doing so because of institutionalized relations with them.

Can we say something about the innovations which are not connected with buying improved products through a co-op? In principle a co-op manager, like his private competitors, is interested in innovations for his customers even if they do not directly increase his firm's profits. Innovative members grow faster than laggards, and thus, the sales volume of the co-op will increase. But despite this general interest, does the co-op have enough incentives really to support such innovations? Suppliers usually do not have a strong interest in supporting part of the costs of such innovations because of external effects. A firm's competitors as well as the firm itself will benefit from the potential increased demand. Only in cases where the external effects can be eliminated will there be an incentive to support indirect innovations.

Fleischman's hypothesis is that this kind of a support is more likely to occur in co-ops than in private firms. This is because the co-ops can more easily eliminate the external effects, e.g., the members can be persuaded to buy just through the co-op. Private firms may also try to do this, but it is easier to control in co-ops. Member-customers can more easily prevent the disadvantages of tighter integration.

The hypothesis about the advantages of co-ops as supporters of indirect innovations can be criticized somewhat based on the successful growth of voluntary food retailers' chains as compared to co-ops in Germany after World

War II. Thus, the hypothesis has to be modified. Why have not co-ops exploited the opportunities open to them?

The control of co-ops by their members can make the support of indirect innovations more difficult. Whenever the majority of members, because of personal or factual reasons, is unable to innovate, these members oppose actions of the co-op which do not bring any advantage to them. Whereas the co-ops in Germany after the war had a very heterogeneous membership the voluntary chains concentrated their efforts from the beginning on the most promising retailers. Thus, the hypothesis is valid only when the majority of members are willing to innovate.

In a polypoly, where the conservative family firms dominate co-ops can improve the dynamic operations of competition. Management positions in large co-ops are opened up to creative persons from outside the industry and the creative co-op managers have, because of the logic of the situation, commitment to implement innovations among the members.

The co-ops are not, however, the only one form of cooperation which has these advantages. This was shown, e.g., by the success of voluntary chains. Therefore, it would be poor public policy if only co-ops were supported in order to improve the dynamic performance of competition. In a manner similar to the positive effects that differences in firm size have on market competition, a large number of alternative forms of cooperation can improve the dynamics of competition.

If a particular form of cooperation is supported, steps should be taken to ensure free exit from the cooperative group is maintained. In that way the possibility of maintaining innovative pressure on what could otherwise become a stagnant organization can be strengthened.

Geir Isaksen

Cooperation and Democracy

(1982) Kooperasjon og demokrati, Lanbrukskooperationen in Norden, pp. 13-21, Esbjerg, Danmark.

Cooperation without democracy is impossible, democracy is a criterion of cooperation.

"A cooperative organization is a group of people who go with equal rules into voluntary 'number controlled' economic cooperation to reach their goal." (Rokholt, 1977).

1. Who is able to participate in cooperative democracy?
2. How important is cooperative democracy?

The meaning of democracy is different in present large co-ops compared with its use in earlier times. What does a shift from direct into indirect participation mean to the democratic organization? What impact does the usage of representatives have on members' influence and participation?

Requirements of a representative (Birch, 1971):

- he has to be elected by the people he represents
- he has to have, to a certain extent, characteristics of the group
- he has to be a person who can be a symbol of the group

It is better that a representative be financially well-off, so that he can put time and money into the representation.

A democracy is (two proposed definitions):

- an arena for interest competition;
- a forum for national discussion in order to create the best possible solutions for everyone.

The first definition is the most important.

The leading principle in western democracies is political equality. This is both a goal and a means in democracy. If members in the system are politically equal, there would be an equal exercise of power by all in the system.

However, the constitutional framework which makes it possible for all to participate in political decision making does not guarantee political equality. A political system can simultaneously have an extraordinarily good constitutional framework for equality and substantial political inequality.

Family background, work experience, education, intellect, social stature, etc., are variables which seem to have political meaning as well. Political equality will therefore vary with the rate of equality in the other fields of society.

Participation is important to a democracy.

- participation stimulates an active person
- participation stimulates a desired goal achievement
- participation gives to the members a wider view of the decision making environment they can obtain in any other governing system

He refers Shumpeter and states high participation creates unstable political situations and can lead to more authoritative systems.

Participation Model vs. Elite Model

The political science philosophers have emphasized the goal setting process which is "inbuilt" into the democratic system. These ideas of large societies cannot, however, be directly transferred to co-ops.

- A democratic organization promotes general interests.

The basic argument behind this statement is that if rule by a few people will further the minority's interests, rule by many people will further general interests. Qualifications to this statement:

- it is not clear that many people's interests are the general interests
- probably "many people's" interests are, however, more general than a few people's interests.
- democracy educates those who are participating
- A democratic organization promotes efficiency.
- everybody working to achieve the same goal
- but this system takes a long time; it is slow. Another opinion is that democracy occurs at the cost of efficiency.
- why does the democratic decision making system have to take significantly longer than other, more authoritarian systems?

- organization's internal requirements
- environments requirements

Internal Requirements

Although the organization is democratic, it does not have to mean that everything has to be decided democratic.

Which things are handled through the democratic institutions and which are not?

External Requirements

In order to have some meaning, a democratic organization has to have a certain amount of autonomy.

Kaarlehto, P. (1956), "On the Economic Nature of Cooperation," Acta Agriculturae Scandinavica VI # 4, pp. 34-43.

Kaarlehto examines the optimal level of output of a cooperative. Referring to CLARK, he comes to a conclusion that the output level desired by the members can be far from that of a profit-maximizing firm.

He also examines (pp. 49-43) the volume of patronage refunds in Scandanavian co-ops and finds it to be relatively small. He asks whether it is useful to take such small amounts into account while examining the differences between the optimal output level of co-ops and that of other firms (see, e.g., Eschenburg's discussion of "horizontal conflicts" in a co-op). He says that, on the one hand, patronage refunds make it easier to charge an exact price from the patron, when the incurred costs can be calculated after the transactions have taken place (Emilianoff, 1948, p. 133). But on the other hand, because of taxation rules in Scandanavia, it would be advantageous to make initial prices as exact as possible.

PP. 43-50 Independence vs. Non-independence

As a second step in comparing the cooperative to other forms of businesses Kaarlehto examines the independence of a cooperative to strive towards profits. The basic questions he asks are: Do the maximum profits of members and of the co-op coincide? and Are they obtained at the same output level and in general under similar conditions?

Because the cooperative does not constitute an economic unit by itself, but is part of a joint enterprise with its member units, the optimal levels of output for member profits and for co-op profits differ. In private firms optimal output occurs where $MC = MR$, but in co-ops the "optimum" output occurs where the difference between average return and average cost is at a maximum.

Kaarlehto concludes that the output level leading to maximum total profits for the co-op and that leading to maximum average profit per unit (member) do not coincide. Thus, members' interest is not consistent with co-op operating at the investor-owned firm's total profit maximizing level.

This also means that a co-op, which serves the interests of its members, can not operate independently, i.e., strive for maximum total profit.

Laurinkari, J., Laakkonen, V., & Patiala, R-V.

The position of the board member in the co-operative democracy.

(1982), Fortroendemannens installning till andelsverksamhetens demokrati, Landbrukskooperationen i Norden, pp. 133-144, Esbjerg, Danmark.

When a co-op grows and takes on more activities, the decision making power which the members delegate to the board of directors shifts more and more to the administration (hired management).

Hypotheses

1. The attitudes about the equality of member democracy are more positive in the farmer co-ops than eg. in consumer co-ops, and co-op banks because farmer co-ops have closer contacts to their members' working environment.
2. The board members have more power in the farmer co-ops than in the consumer co-ops and co-ops banks for the same reason as in 1.

Both hypotheses received support from a 10-page presentation of a study conducted in Finland.

Mogelhoj, B.

Member influence and decision making circumstances in small and large co-ops. (1982) Medlemsindflydelse og beslutningsfelt i sma og store andelsvirksomheder, Landbrukskooperationen i Norden, pp. 105-121, Ejsberg, Danmark.

The possibilities of influence by an individual member declines when the size of the co-op increases. Reasons:

1. His relative influence declines because of more members.
2. The democracy (delegate system) election of board members shifts from direct democracy into indirect.
3. Both geographical and organizational distance between our individual member and management increases.
4. The power of hired management can be expected to increase eg. because of increasing need of expertise.

But on the other hand, a large co-op can affect its environment better than a small one. Thus, the independence of the cooperative in decision making increases.

21 p. examination of small, intermediate and large organizations and their ability to adjust to changes in their environment.

Conclusions

- an average member had a much closer contact to the co-op than in a large one.
- in small dairy co-ops, the manager of the plant seemed to have an extraordinary amount of power. He himself makes the most of the important decisions in the co-op/ Thus, the hired management can have a strong position both in small and large co-ops.

In the small co-op, an individual member has better opportunities to influence the cooperative, but the cooperative itself operates in more restricted environment. In a large co-op, an individual member has less opportunity to influence the cooperative but that influence might be translated into more power for the individual because of the cooperatives greater ability to influence its environment.

Pestoff, V.

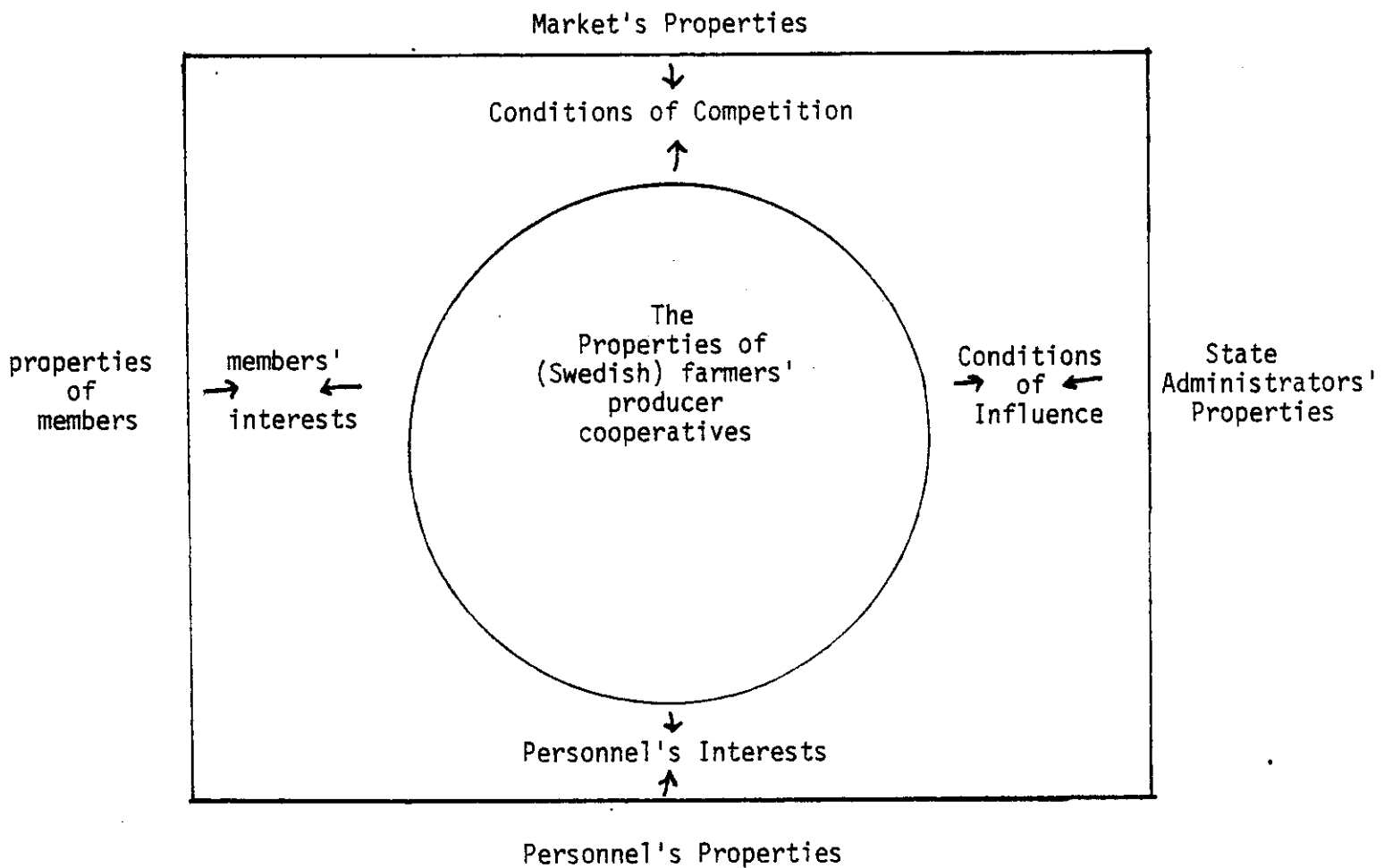
The old dilemma of co-ops: members, market, board members and administrators-- can they be optimized?

(1982) Den svenska landbrukskooperationens dilemma: Medlemmar, marknader, myndigheter och anstallda - Kan de optimeras?, Landbrukskooperationen i Norden pp. 161-181, Esbjerg, Danmark.

It is possible for an organization to become strong in capital, influential and still is managed democratically by its members? The answer in a recently established federated farmer co-op in Sweden is absolutely, "No!". There was no room for an individual member's opinion anymore. Thus, the co-op will be reorganized soon.

Using terminology similar to that in Organizations of Business Interests in Western Europe (Schmitter & Streek, 1981) we can state that voluntary organizations are pulled in opposite directions by two competing factors, member influence and the influence of society. These two influences are present regardless if the organization is an economic one or not. In addition to these two characteristics, co-ops have two other special features with which they must deal, market competition and their role as employers. A farmer co-op must, because of its unique characteristics as both a voluntary organization and a competitive activity, cope with at least four independent, powerful, and strategically important actors--on one side members and the board of directors, and on another side competitors and workers' collective bargaining organizations.

Conflicts between the member democracy and enterprise democracy.



If a farmer co-op emphasizes just one of the factors illustrated above while ignoring the others, the organization changes into a new type of organization.

He examines all these factors...(13 pages)

- He also talks about the influence of farmer co-op movements in general agricultural policy.
- The member democracy and business democracy is an increasing source of a latent conflict.

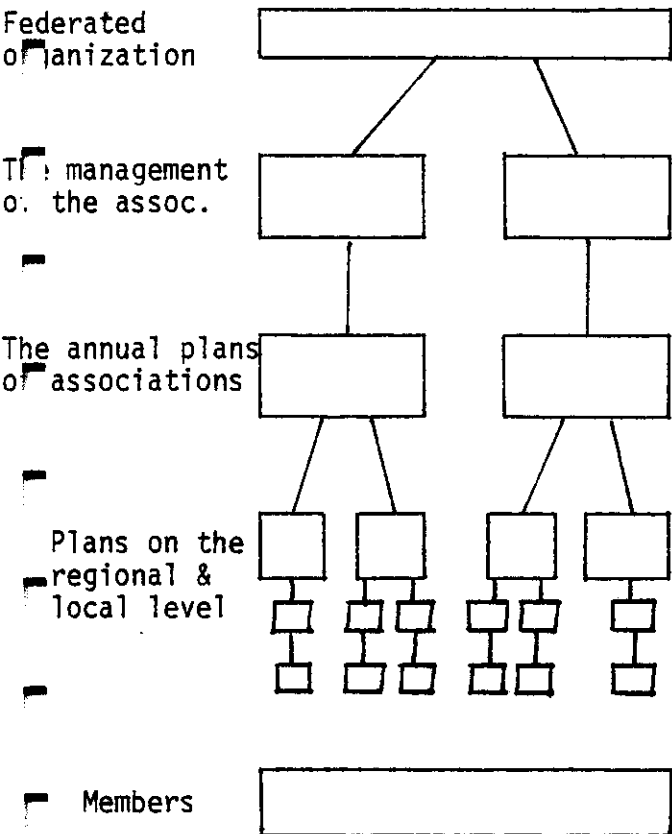
The farmer co-ops (Sweden) are more often directed towards the influence of society and market competition than towards member influence and personnel relations.

On the micro level the co-op risks changing its nature if it emphasizes one single factor too much. When the co-op organizations get further and further from their members, members become alienated and decrease their support and participation. When the members can no longer see any difference between their association and private firms, they lose their motivation to show solidarity and to use their association.

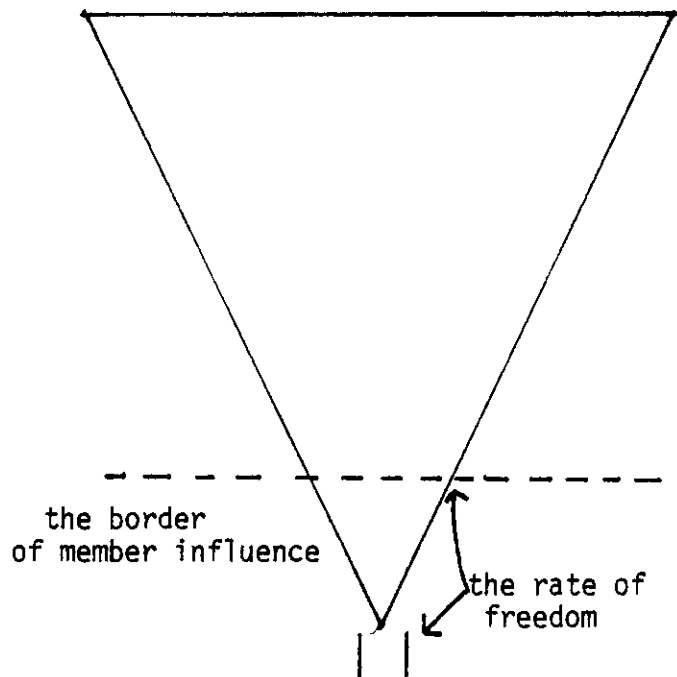
When the members start to feel like individual producers, they may shift their patronage to commercial firms.

On the macro level the relations between members and organizations are affected by market concentration and specialization; the increasing complexity of co-ops decreases the ability of members to understand and manage their organizations.

The Organization Level

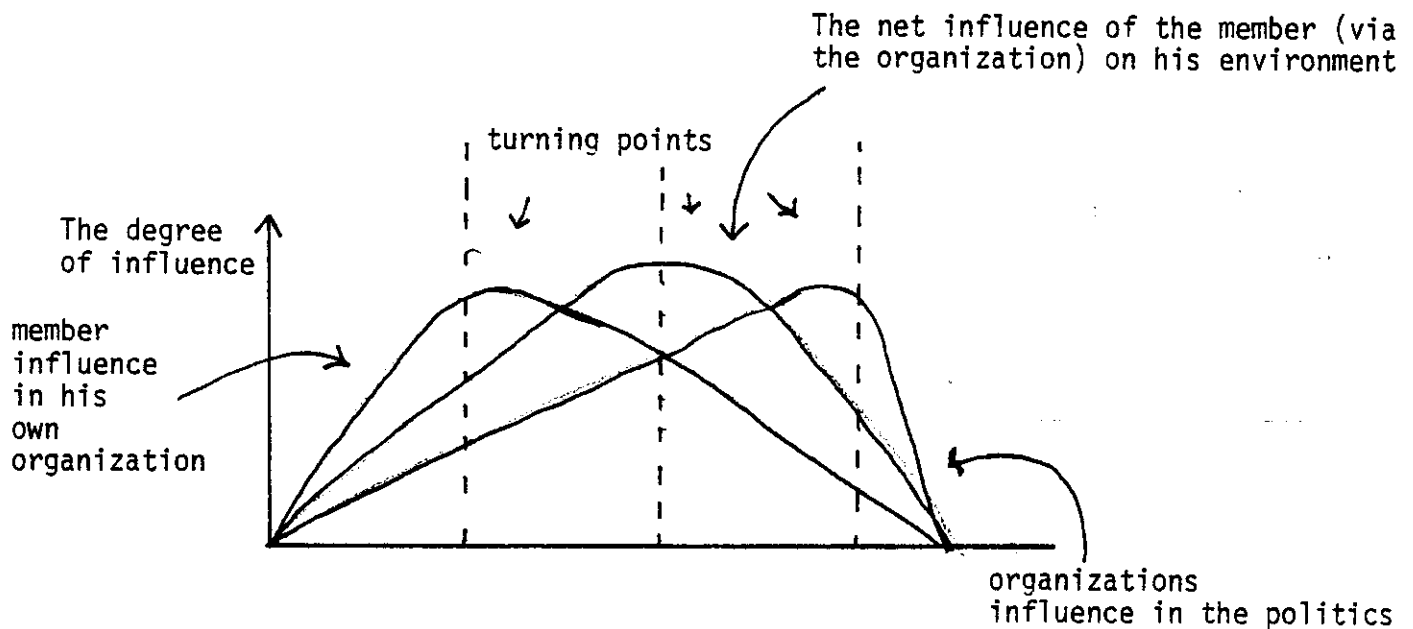


The scope for freedom in decision making



The relations between member influence, organization level and the degree of freedom in the decision making in the agricultural producers' co-op (For a discussion of these graphs see the summary of Rokholt's articles).

The increasing complexity of co-ops because of economic and technical development and thus the need for more sophisticated management methods require more educated specialists. Few board members have that background, which implies an increasing number of professionals in the administration. Technical and economic problems often require comprehensive solutions. Negotiations with public authorities and other interest groups require hired specialists as well. Finally, the governmental regulations on agriculture are also very technical and strongly centralized. The result is that those questions which are not handled by central administrators (i.e., the questions that are left to the board to decide) have either a very limited scope for discretionary action or are of little importance, or both.



Rokholt, P. O.

Board Members - Selection and Representativeness

(1982), Tillitsvalgte - seleksjon og representativitet, Landbrukskooperasjonen i Norden, pp. 89 - 104, Espjerg, Danmark.

Representation and RepresentativenessRep's
Correspondence of Opinions

		Yes	No
Rep's Correspondence of Background	Yes	Representative	Background Representative
	No	Opinion Representative	Not Representative

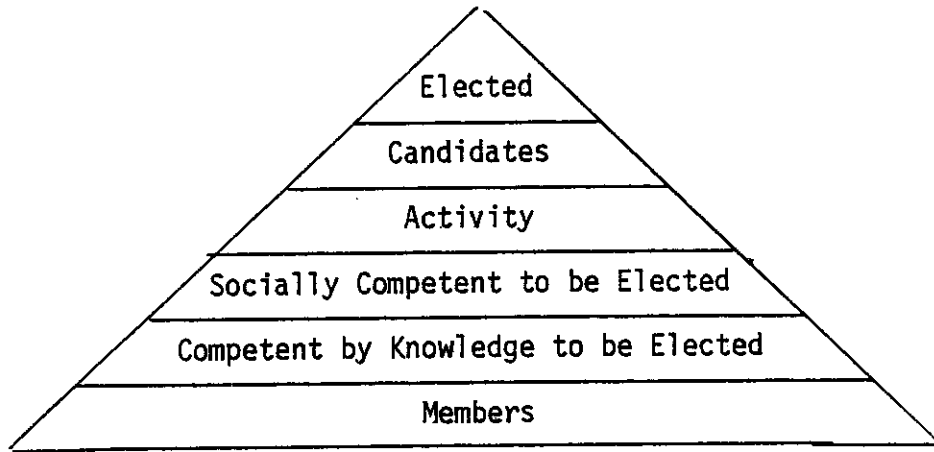
Background correspondence = the decision making institution is when measured by socio-economical and demographic criteria, a microcosm of the members.

In Rokholt's model, both background and opinion representativeness was required for board members to be considered representative of the membership.

Opinions can be related to a representative's background but not always.

Representativeness is an important factor in taking different interests in a cooperative into account.

Recruiting and the Structure of the Board of Directors



Recruiting Process

The recruitment process of potential board members explains several things about the eventual structure of the board of directors.

Legislative forms affect on who is competent for election.

Eg. in Norway, only farmers can be members of a farmer co-op. (Not many women).

A certain level of activity is required if someone wants to be elected.

Another way of looking the recruiting process is to take the main factors affecting somebody's election:

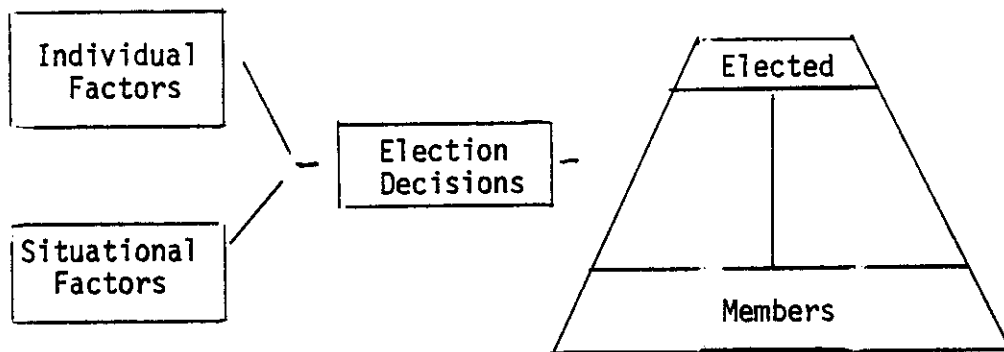
1. Individual factors.
2. Situation factors.
3. Organizational factors.

1. Individual Factors

- a. Demographic factors
- b. Socio-economic factors
- c. Opinions/attitudes/capabilities
- d. The extent of activity, willingness to be elected

2. Situation Factors

- a. Organizational norms
- b. Situational attitudes in the organization



Representation and Consideration of Interests

The main function of representatives is to provide a mechanism for the members to transmit their preferences to the organization. Rokholt investigates whether representatives have different backgrounds than those of members are able or willing to reflect the members' interest in the organization.

Sometime the requirements for a board member may be so high that a specialist is needed.

Problem Definition in Rokholt's Study

Starting point is the co-ops double function (economic interest group representation).

Questions he asks:

- To what extent does the recruitment of board members affect the nature of the co-op?
- To what extent do the board members represent member preferences?
- To what extent have the board members' backgrounds representative
 - election criteria are social names
 - how representative, in terms of background, do the members think the reps. have to be?
- How does the board member interpret his role?
- Which members are active in the organization?

- Do the persons who want to be elected, have certain socio-economic or demographic characteristics?
- To what extent does the socio-economic and demographics backgrounds of board members have in different co-op organizations?

+ Source results from a study of different types of Norwegian Co-ops are presented

Rokholt, P.O. (Norway)

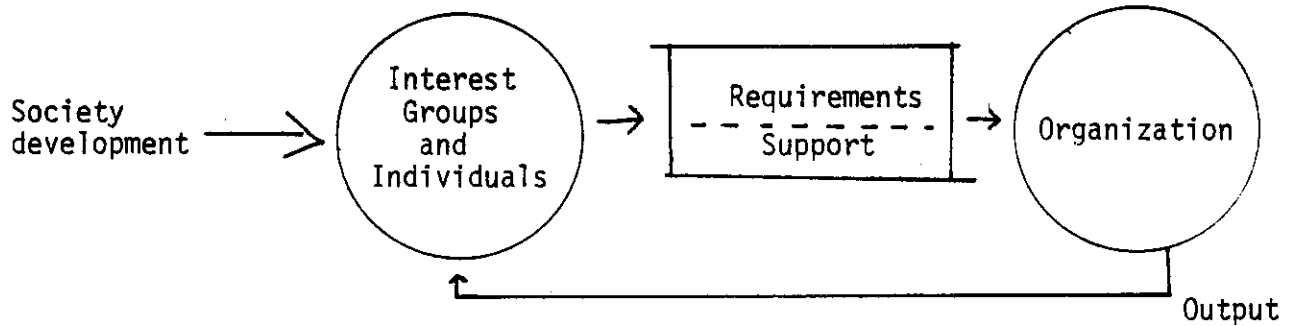
The cooperative organization--an organization form under pressure (1982), Kooperativ organisasjon - en organisasjonsform under press, Landbrukskooperationen i Norden, pp. 145-160, Esbjerg, Danmark.

Cooperative development has connections with other ideologies and visions of the fifth century concerning a better society. Class awareness and solidarity have been important in co-op development.

The organization theory tells us that when an organization grows it tends to shift from concentrating on a single goal to concentrating on complex multiple goals. Power tends to shift from a dominating coalition into of an varying coalitions. So the goals and activities organization vary over time--the organization adjusts itself according to changing requirements.

Co-ops are similar to other organizations being a part of a larger system. In other words, co-ops are dependent on other organizations and interest groups (such as customers, competitors, workers, political decision makers, etc). These interest groups are making increasing demands on the organization and the power distribution among the groups are changing. The cooperative is faced with the challenge of adapting to these changes, and how well it does so is one indicator of its performance. Rokholt presents a small model to illustrate this:

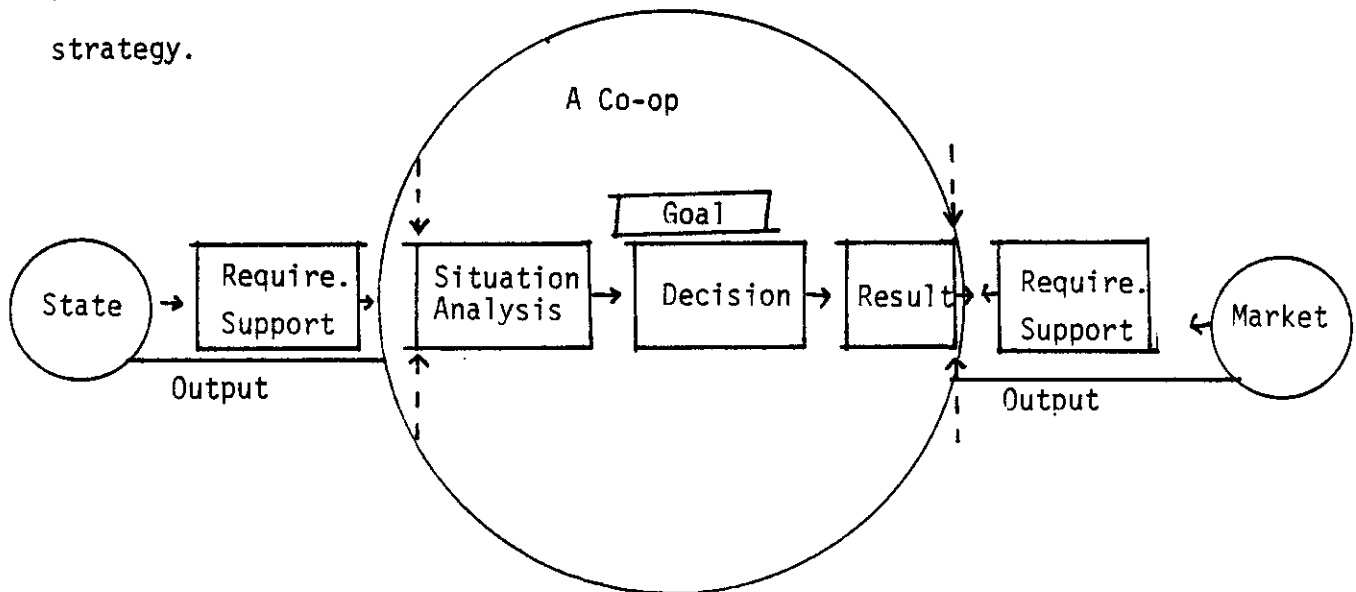
- An organization has to have support from the environment in order to survive and develop itself.
- To get support, certain requirements have to be fulfilled. This requires the recognition of other organizations.
- Requirements and the support will fluctuate along with the development of the society and also according to how the organization behaves.



Output = decisions, results of the organization (products, services, political statements, etc.)

The output has a significant influence on what kind of support and whose support the organization gets. "Social development" (evolution) has an impact for what requirements the organization gets from different interest groups.

Practically, it is usually impossible to fulfill all the goals set for an organization. This means that the organization has to establish priorities among them. This means supporters are prioritized. This process of setting priorities among organization goals is what Rokholt calls the choice of a strategy.



This model illustrates the adjustment situation of Norwegian co-op organizations.

The decision making process plays a major role in the adjustment system.

On the national level, the weaker the knowledge about the co-op organization's goals (special features), the lower they become in the priority compared to competitive requirements.

In large complex organizations the primary goal becomes the assurance of survival and growth. The organization starts living "its own life" independent on its fundamental purposes and uniqueness.

Organizations' external requirements called here requirement-support relations, are fundamental for the organizations adjustment process and thus, for goal selection and implementation.

Rokholt presents 3 roles of co-ops (in Norway):

1. as an interest organization
2. as a traditional actor in the market system
3. as an official governing institution

- vertical integration of co-ops
- competition increase in the market is in conflict with specialty of the organization. The organizations have usually not showed the conflict but lived with the rules of competition.
- generally, co-ops have gone through a similar development as other firms.
- co-op form is not a very suitable form for pure competition with other firms.

As an interest organization, there is a conflict between farmers' co-ops and farmers' professional associations.

Co-ops meet an increasing pressure by the state to function as semi-official organizations.

1. The state and professional associations (e.g., labor unions) seem to agree that the co-ops should act like Government administrative organizations--not interest organizations.

2. Cooperative organizations get support in the form of a guaranteed market position which makes it easier to live like a semi-official organization. The farmers themselves decrease the importance of co-ops as interest organizations through their reliance on the professional associations (farmers unions).

The adjustment of co-op organizations to these pressures has caused the decrease of the interest organization character of cooperatives. As a result, the special features of co-ops are about to be lost as a result of adjustment to both increasing market requirements and the requirements to be a semi-official organization.

Thus, gradually the co-op ceases to be a co-op.

Summary

of Skar, J. (1981), *Kooperativa Foretag*. SOU 1981:54, Stockholm

On the characteristics of the cooperative enterprise¹

Introduction – overview

The main purpose of this study of the cooperative enterprise is to bring about a better understanding of the characteristic features of this particular organizational phenomenon. A second purpose is to analyse the institutional conditions of cooperative enterprises and to evaluate them as vehicles of growth and development.

It became apparent at an early stage that there was a lack of systematic studies in this field and of a consistent set of concepts with which research questions could be formulated. The present state of knowledge about the cooperative enterprise is a confusing one in which three sources can be identified, the utopian, the scientific, and that of cooperative practice. Since these sources seem to operate independently and do not fully coincide with recent developments in the social sciences, there was no coherent basis of knowledge on which this study could draw in order to explain and make predictions about the organizational phenomenon in question. In fact it is not even certain that the traditional definitions of the cooperative enterprise make analytic sense. The approach followed by this study was therefore to develop a conceptual model of the cooperative enterprise. This model was then related to the foundations of organized and cooperative behaviour, and was also used to investigate the cooperative phenomenon from a number of perspectives in order to deduce some of its general characteristics.

In a special study five cases were investigated on the basis of the conceptual model proposed and conclusions with respect to the characteristic features were reached. Finally, an examination was made of the treatment of the cooperative enterprise within economic theory. This section more than confirmed the suspicion that there had been inadequate treatment of the cooperative enterprise from a strict "economic perspective" as well.

The second purpose of the study as stated above, was achieved by exposing the cooperative enterprise, pared down to a core of its characteristics, to a number of environments and strategies for growth and development. The results are presented below in a summarized form.

¹ This study was carried out at the University Stockholm, interrupted in the end by the engagement of the author by Unesco. The study is, of course, quite independent of Unesco and is the responsibility of the author alone.

A cooperative model

According to Fauquet a cooperative consists of two essential elements, namely an association of members and an economic activity. These elements are interdependent. The cooperative model proposed in the study is a conceptual but nevertheless a comprehensive expansion of the notion of cooperative advanced by Fauquet and in it the sphere of the individuals and members is integrated with the economic activity mainly by means of three kinds of relationships which thus determine the structure of the cooperative.

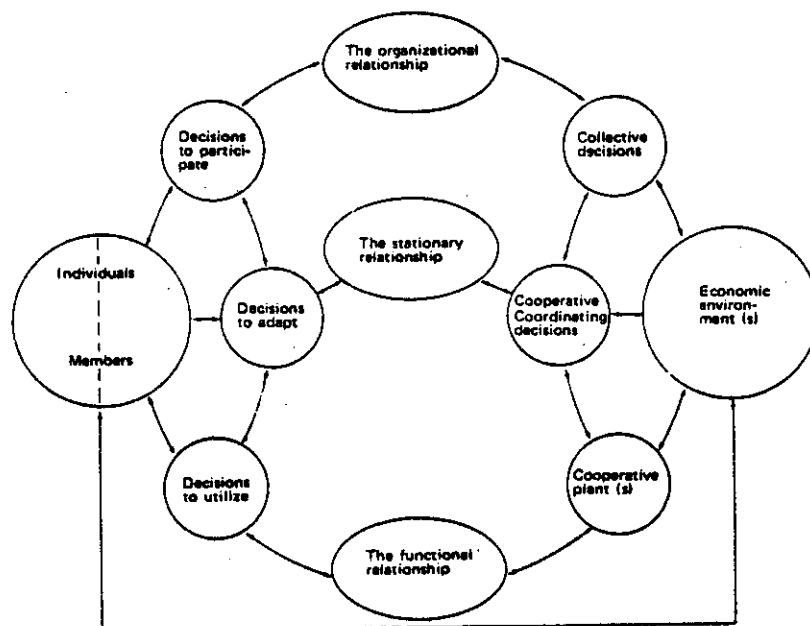
As stated above the purpose of the model is to deduce by reasoning the important characteristics of the cooperative enterprise (a priori and inherent), to identify characteristics in practice and theory, and finally to make a synthesis of the characteristics with regard to growth and development.

Structure of the model

An overview of the model is presented in diagram 3B. In it individuals and members are assumed to make three kinds of decisions, namely with respect to

- participation (to be members or not)
- utilization of the economic activity (goods and services) created by the collective effort
- adjustments with respect to the structure of the production (function) of the members themselves.

It is presumed that the economic activity is directed by collective decisions which give rise to a number of cooperative coordinating decisions and a cooperative plant (or plants) depending on the contexts and the (economic) environments. This is the right-hand side of the model in diagram 3B.



The two sides of the model are connected by the following three relationships;

1. the organizational relationship, which includes the participation and aggregate information on this, and the communication and control aspects
2. the stationary or structural relationship, which comprises the size distribution, the density of the members and technical aspects of the members and the plant
3. the functional relationship, which includes the flow of economic activity to and from the members and the plant.

The structure and the process presupposed in the model are explained at some length in the study. One basic assumption is that these processes are subordinated to the organizational relationship and the collective decision which have their origin in the decisions of the members to participate. Thus the first characteristics of the cooperative enterprise, regardless of context, are its integrated nature and relatively stationary structure and a corollary of this is that, due to the integrative nature of the cooperative enterprise, the members become mutually interdependent in their efforts to pursue their own individual objectives. This gives rise to a cooperative dilemma, and it also creates some of the specific problems of cooperative behaviour. In particular the scope and strength of the collective decision becomes affected since there will always, although not always overtly, exist a conflict between individual and collective behaviour. In the model the scope of the collective decision is purposively limited to the following aspects

- a) to reflect the preferences of the members
- b) to create the necessary conditions – in particular with respect to resources – for the development of the functional relationship (see above)
- c) to develop policies for the set of cooperative coordinating decisions (management) to be made and executed
- d) to distribute the cooperative surplus (positive or negative).

The concept of the cooperative surplus follows partly from the interdependent and integrated nature of the cooperative enterprise. This surplus is the economic (net) worth created by the cooperative in relation to other relevant organizational alternatives and it is ex ante indeterminable and not merely unknown and uncertain (although perhaps expected). As a consequence of this interdependence and indeterminacy, the cooperative enterprise has a general distributive characteristic. It may in this respect be justifiable to introduce the notion of cooperative prices (internal) which are the signals for productive behaviour and which replace market prices.

The test of the model is its relevance but not necessarily in a strict empirical sense. Thus it is not quite relevant for the purposes of the study to develop a model which has the best "fit" to the cooperatives found in practice. If this were achieved it would not then be possible to identify any lack of cooperative characteristics in existing cooperatives. On the other hand it would be equally unrealistic to develop a conceptual model which, due to its strong assumptions and inherent structure, would identify all existing cooperatives as "non-cooperatives". However, it was felt in this study that there is a much greater

need for a model which leans towards the latter ideal than one which has a very good "fit". The model developed in this study may then be regarded as an "ideal" model to be used with some caution and not as an absolute norm. In fact it is an auxiliary model developed in order to study the characteristics of the cooperative enterprise and not a normative model for the actual design of cooperatives.

Nevertheless questions arise with respect to the absoluteness of the cooperative relationships of the model and of these the organizational relationship deserves the greatest attention because it seems to be so crucial for the organization qua cooperative. In the model an aggregation of preferences is postulated and this, of course, implies some kind of representation. Thus the model requires representation. At the level of the model it is, however, not quite relevant to be categorical on the issue of representation and it seems sufficient to be concerned with the finality of representativeness which is the quality and scope of the collective decision – making in the cooperative. If strong representativeness were postulated, the model would be refuted by the "non-representativeness" found in practice. This "non-representativeness" is, however, part of another cooperative dilemma which unlike the one referred to above, is not inherent in the organization form, but social and which therefore can be assumed to be manageable.

For both of these reasons it becomes necessary to adopt a cautious standpoint in applying the model and also to take a closer look at the contexts which give rise to cooperation from a number of different perspectives in order to identify some of the variety found in the general characteristics of cooperative enterprises.

Foundations of the cooperative enterprise

The functional requirements of the members constitute the foundations of the demand which completely or in part can be satisfied or can be expected to be satisfied by means of the organizational alternative, i. e. a cooperative. This is almost axiomatic in cooperative analysis. However, analysis of the demand and above all its aggregation, gives rise to a number of ontological problems which remain unresolved in the general theory of demand. In cooperative demand analysis these problems are in principle even more difficult to resolve. As a step towards operationalization for the purposes of this study, an auxiliary assumption was introduced. Thus the individuals – members and nonmembers alike – are assumed to be producers. As producers they are in need of inputs for production as well as for consumption – and they produce outputs, sometimes sold and sometimes consumed by themselves.

From this assumption the objective of an individual in becoming a cooperator can be deduced. The objectives of cooperation may then be summarized by the concept of the resource interest in contrast to the more esoteric ultimate objectives in the utility theory and in other theories. A further consequence is that the members may be assumed to pursue their resource interest in a rational, but not necessarily in an identical manner. Thus the model does not assume identical behaviour on the part of the members.

As an illustration of this pragmatic approach to the demand and the objectives of the members, a number of general areas can be envisaged with respect to demand. Thus the study suggests the following,

- 1) "nourishment" (which means the demand for input for the preparation or/and consumption of foodstuffs/meals)
- 2) "housing"
- 3) "health"
- 4) "clothing"
- 5) "circulation" (which means communication and transport and corresponding inputs)
- 6) "knowledge and development"
- 7) "work"
- 8) "production" (which means to produce for production and consumption but also to produce in order to feel useful)
- 9) "care" (which means to be taken care of as well as to take care).

These general areas may provide a basis for further investigation in order to arrive at a workable basis for the creation of cooperatives. The set of general areas has, however, some value in itself.

As seen from the point of view of the individuals not all individuals have the same organizational capacity to participate and hence to cater for their demands. Thus aggregated demand representing only those who have this capacity, may not correspond to the true demand in a society. In consequence a cooperative may therefore be seen as a selective instrument in spite of its openness. For the group of individuals who become members, the cooperative may be seen as an integrated organization based on principles derived from the model, and the purpose is to fulfil the functional demand in such a way that the resource interest is optimized. This is, of course, a much more complicated definition than the general (private) enterprise definition and this is due to the characteristics of the cooperative enterprise.

From this analysis of the general problem of cooperative demand and the notion of an enterprise, four cooperative relationships were derived for the cooperative enterprise. A cooperative enterprise will be in need of input, *capital* and *labour* in order to produce *output* in the cooperative plant. Hence the cooperative relationships are,

- 1) cooperation based on inputs (commodities and services) *to* the members from the cooperative plant, i. e. *output* from the plant
- 2) cooperation based on output from the members, i. e. *input* for the plant
- 3) cooperation based on labour input (for example) from the members and resources to the members from revenues obtained by the production of the cooperative plant
- 4) cooperation which has as its aim to provide the members with resources (capital, benefits, insurance, etc.) in cases where members also have resource input (capital, premiums, etc.).

These cooperative relationships correspond to the general structure of any enterprise since all enterprises transform some form of input to output by means of a productionfunction in which labour and capital (which presup-

poses investment and hence financial capital) are absorbed. A cooperative enterprise will then have to be cooperative with respect to at least one of these relationships. A cooperative based on all four relationships (a-d) would be a closed cooperative. In practice one will find that the usual cooperative relation is either the input- or the output relationship, i. e. producer and consumer cooperatives. Thus a cooperative will have economic interactions with two and sometimes three various segments of its environment. The implication with respect to the characteristics is that a cooperative enterprise with only one cooperative relationship will have to be operative in three segments in which the other types of enterprise often also operate at the same time. While the private enterprise has the same set of characteristics in all segments the cooperative enterprise will at the same time have to maintain its characteristics for internal purposes and compete with the other types of enterprises. This situation is not likely to create comparative advantages for the cooperative enterprise because of conditions which will be mentioned further on.

Obviously this shift in profile and the nature of interaction give rise to difficulties in both theory and practice when it comes to cooperative analysis. The cooperative enterprise is much more difficult to grasp than the private (capitalistic) enterprise. This becomes even more obvious when a number of perspectives are introduced.

Perspectives and the cooperative phenomenon

A perspective implies an orientation apart from the object to be studied. The thesis made in this study is that the object, i. e. the core of the cooperative phenomenon, will change according to choice of perspective. Since these perspectives are often implicit in the argument, the perspectives should be analysed and the effect on the definition of the cooperative enterprise and its characteristics should be evaluated. Obviously the characteristics sometimes have their roots in one perspective or another.

The perspectives to be introduced below are neither fully interdependent nor additive. The choice of perspectives was determined by the purpose of the study, i. e. to highlight the question of characteristics. The following perspectives are discussed,

- 1) the organizational perspective (which focuses on the motives for cooperation, the demand for organization, participation, communication, etc. and which includes the organization relationship of the cooperative model)
- 2) the social perspective (which may be equivalent to the society itself or constitute a subset in it, but which also brings into the analysis the social structure and social institutions)
- 3) the functional perspective (which focuses on functional aspects in the cooperative and in the society of which the cooperative is a part)
- 4) the technical perspective (which is a more specific perspective than the functional one)

- 5) the perspective of rules and regulations (law)
(which define transactions as well as enterprises but also the regulations of various kind, see further below under institutional conditions)
- 6) the economic perspective
(which focuses on the economic decisions, the information and on the values on which decisions are based)
- 7) the system perspective
(which relates a cooperative to other cooperatives both horizontally and vertically in hierarchies)
- 8) the allocation perspective
(which put the cooperative into the context of resource allocation in a society).

Of these perspectives the social perspective is probably the most fundamental one with respect to the long run tendencies and motivations to satisfy the demand for organization by forming cooperatives. In the study there were many indications that if the economic environment of cooperatives is defined as the totality of these perspectives (which have different horizons and impact), then this environment is far from harmonious and consistent. Sometimes an objective related to one perspective is represented by an opposite objective in another perspective.

Since the cooperative enterprise is in a particular sense stationary, it is possible by means of the study to identify a number of constraints on its behaviour. Since no organization is really static but embedded in a more or less dynamic environment, the stationary nature of the cooperative may impede its development unless new balances are created by variables identified within the set of perspectives. To a great extent it is also a question of creating a conception of a cooperative as an organizational entity which is less stationary than one is usually led to believe. The perspective analysis in the study reached the conclusion that the cooperative enterprise – as modelled – is both analytically and practically unstable. This is partly due to inherent factors and partly due to empirical factors. In both cases it seems that further research efforts could very well result in a reduced instability since it is felt that this is at least to some extent caused by a genuine lack of understanding of the cooperative concept. This instability is, to the extent that it is inherent, an important characteristic of the cooperative enterprise. It is not fully shared by other types of enterprises in a society.

A comparative view

The main difference between the cooperative enterprise and the private and public types of enterprise is, however, the dual character of the former. It is the only type of enterprise in which the same group constitute both controllers and users, i. e. as seen from a formal point of view. In practice there are, of course as shown by the study, many deviations from this model assumption. When this is the case a cooperative may sometimes be said to have lost some of its major cooperative characteristics and to have moved towards one or other of the fundamental types of enterprises. There is a considerable amount of evidence of such movement. Thus the cooperative enterprise may be said to be

unstable also in a comparative sense. On the other hand the conditions of this type of instability may be less inherent than exogeneous. The conditions often originate from a set of conditions determined by various expressions of collective interest, power, and traditions in the society at large. As a consequence an analysis of the characteristics of a cooperative enterprise cannot stop at the design of a conceptual model which, after being extended by assumptions with respect to cooperative foundations, is used to examine the cooperative enterprise from a variety of perspectives. In this study it was deemed necessary to investigate the cooperative in a wider context in which the various kinds of institutional conditions are also introduced. Only then can the conditions and their effects on the cooperative enterprises as compared to other types of enterprises be distinguished.

Institutional conditions

A long term retrospective view of the development of types of enterprises would for most modern societies show an absolute growth for all main types of enterprises (as measured in total economic activity). The growth of the public type of enterprise is usually greater than the relative growth of the private enterprise which is greater than the relative growth of cooperatives. With respect to numbers of enterprises the private enterprises usually outnumber the other types many times over. Referring to the demand areas mentioned above, new cooperatives in Sweden are almost totally confined to the area of "housing". The growth of the public enterprises (producing services and goods for markets as well as within public programmes) is due to the policies pursued by the government with respect to infrastructure development etc.

The differences in absolute and relative growth may to some extent be due to the predominance of certain types of interests which dominate the organizational development, and also due to tradition. If this were not the case this development might be thought to be based on a comparison of the net advantages of the various organizational alternatives. The study shows, however, that the information and knowledge needed for such rational decision-making do not exist.

In the study the following general types of institutional conditions were identified,

- a) values and ideologies
- b) interests
- c) ownership (or resources and land)
- d) contracts (the institution of establishing reliable contracts)
- e) knowledge (and its diffusion)
- f) division of work.

These conditions are with respect to the purposes of this study seen as mutually dependent. The power structures which dominate this set will determine to a very great extent the every-day workable institutional conditions which meet the cooperative enterprise in its economic environment but also when it creates its own structure. Here it is sufficient to point out that while cooperatives formerly were "designed" according to what are called cooperative principles, a cooperative is at present most likely to be designed in

conformity with the tax laws. Thus the very structure and not only the behaviour of the cooperative may be constrained by institutional conditions which often do not recognize the characteristics of this type of enterprise.

Some type of interest will usually dominate an enterprise and strive to shape it into an efficient instrument. Thus the private interest is likely to focus on the enterprise as an economic entity within an economic perspective. It will consider the institutional conditions from this perspective as well and other perspectives which might bring out other institutional conditions, are regarded as counterproductive. This enterprise type is primarily an economic and technical entity and legally welldefined with contract-like relations in all segments of its environment. The institutional conditions usually support or are adapted to this type of enterprise. This is also highly valid for public enterprises although the set of workable conditions may be different. The public enterprise is on the other hand often stationary due to the administrative division of work in the public sector. (Municipalities maintain the same type of service independent of size and economies of scale, etc.)

Only the cooperative enterprise is truly functional and hence other conceptions of this entity are subordinated to this within the cooperative. This may, however, not be the case in the economic environment and with those who are creating the institutional conditions to be put into statutory form. At this design level the stationary nature of the cooperative enterprise should be recognised and yet strangely enough it seems that this stationary nature is the main cause of the negligence this type of enterprise suffers from, in particular within the allocation perspective where the limitations of the cooperative form really emerge. The study arrives at the conclusion that the cooperative enterprise is not sufficiently well identified within the set of institutional conditions. Thus this type of enterprise may be said to be institutionally constrained and sometimes discriminated against.

The empirical part: The cases

Five cooperatives were studied in depth in order to further elucidate the main characteristics of the cooperative enterprise. Of the five cases two were consumer cooperatives, two producer cooperatives, and one a housing cooperative. The study concentrated on the following aspects,

- a) the functional relationship
which was found to be the dominating one in all cooperatives
- b) the organizational relationship
which varied considerably with respect to participation and which in no case really dominated the policy and strategy decisions. This finding supports the conclusion mentioned previously about the limitations of the collective decision
- c) management and planning
which varied in the cases studied but the common feature of which was the lack of an efficient organizational relationship for the purposes of information and hence efforts by the management to obtain "surrogate" information sometimes by traditional market research methods
- d) capital (financing and investment)

which was found to be the critical element common to all cooperatives although not to the same degree; in the capital aspect the cooperatives were found to differ from other types of enterprises and the private ones in particular; the institutional conditions with respect to the capital market and its regulation, tax regulations, etc. do not sufficiently well recognize the characteristics of the cooperative enterprise with respect to capital (allocation of resources).

A common feature in all these cases except one was the orientation towards cooperative systems (of the system perspective discussed above). In the economic environments in question, this is only to be expected. In the exception referred to the lack of a system relationship explains the low efficiency of the collective decision making.

Characteristics in the empirical cases

The following groups of characteristics were identified,

- a) aprioristic characteristics which followed from the cooperative model and the existence of which were confirmed
- b) characteristics relative to other types of enterprises (private and public)
- c) characteristics relative to institutional conditions and underlying socio-economic aspects.

A number of characteristics were identified within each group. A general tendency is the weakening of the organizational relationship (group a) and the increasing dependence on institutional conditions. Further the social cohesion and structure which used to be important for the creation of consensus and communication, seems to be fading for the large cooperatives. Hence there is the risk that the disappearance of the main characteristics over a time will transform the large cooperatives into administered quasi-public enterprises.

Cooperative enterprises in the economic theory

It was found early in the study that there are many assumptions but no really coherent theory. This lack of aprioristic knowledge determined the approach of the study. However, it was felt that a survey and an analysis of the prevailing theory would at least reveal the needs as well as the main shortcomings of economic theory with respect to cooperatives.

By definition a cooperative will at a given point in time have a fixed number of members. In spite of the decision to participate (cf. the model and the decisions on the part of the members) these members may have different sets of action, information, and preferences. Their integrated behaviour will of necessity create uncertainty and hence relative indeterminacy due to the possibilities of creating different coalitions. Only under a very restrictive assumption will a relatively stable equilibrium exist. The strong assumption is that the members have identical preferences. Then a cooperative may be

analyzed in the same manner as enterprises are in the neo-classical theory of the firm. This explains the flaw in the economic theory but not the negligence in theory development with respect to other aspects than the assumption referred to.

This assumption when applied to the cooperative leads inevitably to several analytic shortcomings. Since a private or a public enterprise is not integrated in the way a cooperative is, the equilibrium of the cooperative is more unstable. While the concept of optimal behaviour of the former types of enterprises has a real meaning, the very concept of optimization is very unclear and may not have any meaning at all in cooperative analysis. Furthermore the study revealed a number of possibilities of conflicts with respect to pursuing the interest of the members, the managers, and society. In general the consumer cooperative is likely to produce less than the optimum from the point of view of society provided that the functional relationship is based on decisions derived from the pure interest of the members. The cooperative would, however, produce more than a private enterprise.

For producer cooperatives the nature of the cooperative reveals the particular indeterminacy referred to above. In such a cooperative the members will have to act under a special form of uncertainty created by the cooperative itself. Thus there will not exist the same price information as in a market. The decision about how much to produce will be made under uncertainty. This uncertainty may nevertheless be less than the uncertainty and price variations within a market structure. For the producer type of cooperatives it was, however, shown that a relative stable equilibrium is attainable in cases when the members of the cooperative have the same supply functions. It was also shown that under certain additional assumptions this type of cooperative may have a tendency to produce more than is optimal for society. This is often the case in practice but the nature of the cooperative enterprise may not be the only cause.

Thus only under very strong assumptions is it possible to apply the tools of economic analysis to the cooperative enterprise. A considerable development of the theory and an integration of the characteristics of the cooperative enterprise is therefore needed. Some indications for further theory development are presented in the study.

Cooperative development and growth

A core of characteristics which were partly postulated and partly empirically derived, was used to analyse the cooperative enterprise in three types of environments. A major conclusion is that a cooperative cannot be expected to maintain its characteristics in a pure market environment. The main reason is, of course, the importance of the stationary relationship. The implicit conclusion is that a cooperative will need some kind of protective environment (cf. the system perspective but also the conclusions with respect to institutional conditions). In practice the agricultural regulations and corresponding regulations in housing provide this "protection" which are only mentioned here as examples. The third kind of socio-economic environment, the centrally planned environment, does not give any room for the pure cooperative model at all. Only after modifications and defining the relevant

decision sphere will there be any similarity to the open cooperative assumed in this study. Generally the main conclusion is that the cooperative in order to survive in the long run, will need an environment appropriately designed so as to reflect the characteristics of this type of enterprise. The conclusion is, of course, based on the assumptions that this type of enterprise is beneficial to the society.

In order to analyse the possibilities, consequences, and limits of growth and development, six strategies were outlined for the cooperative enterprise. The concept of growth which is intimately related to the needs of the members (who may increase in numbers) and hence to the stationary relationship, was in the study related to the functional relationship, and development to the organizational relationship. This is somewhat similar to a two-variable objective function. However, the purpose was not to study the possible relationship between the two but to derive the likely consequences following from the strategies. The conclusion in all strategies was that it will always be difficult to keep the change in growth and development in a balanced state. As shown in part II of the study, growth is sometimes gained at the expense of development, i. e. the necessary change and adaptation of the organizational relationship does not take place. The reason is simply that this is not likely to take place and not that such changes cannot take place. In order to reach new balanced states, it will, however, be necessary to bear the cost of development and this may not always be negligible.

The question of whether this aspect of cooperative imbalance is inherent in the type of enterprise or follows from the behaviour of those in charge is difficult to answer. The findings of this study indicate both these causes and a third which is the fundamental role of the institutional conditions.

Since the role of capital is crucial at least for the growth of cooperatives (this includes also the establishment of new ones), a special analysis was made of the effects on capital. The conclusion was that new models are needed to take care of the capital aspects since the present cooperative form in practice has characteristics which together with the prevailing institutional conditions are clearly constraints to growth.

The main conclusion of the last part of the study is that the "ideal" model of the cooperative enterprise should be extended to include a social dimension which ought to comprise a number of perspectives as is appropriate for the demand area in question. Thus for the design of future cooperatives it is deemed necessary to take the interest of the members and society into account at the same time. For this purpose cooperative models having new and appropriate characteristics – as compared to the models currently in use – need to be developed. This is, of course, a challenge for both theory and practice. It is, however, a deep and long term neglect which will have to be made up for.

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Co-ops and Other Enterprises in Society

Some assumptions:

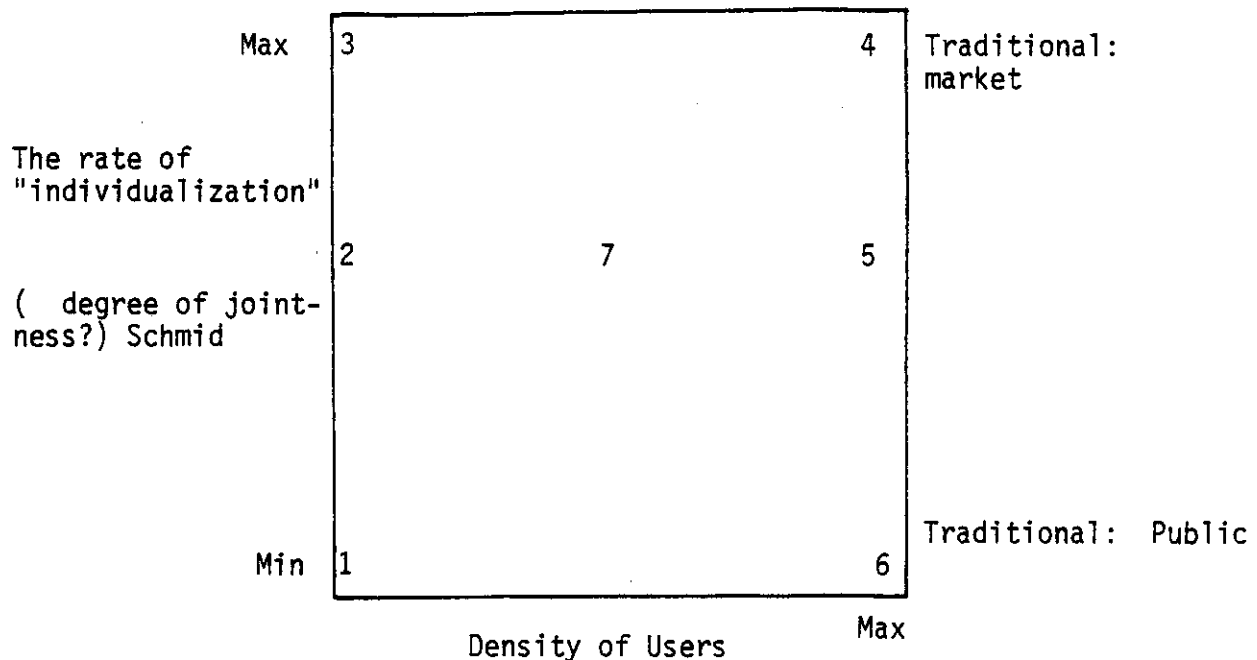
- co-ops exist in society among other types of businesses.
- the cooperative organization is examined in the environment of the whole society.

Demand for an organization:

People's dependence on organizations is greatest in the beginning and near the end of their life cycle. The ability of an individual to take care of things himself is greatest at midlife.

In traditional demand and market theory, the demand for an organization is not recognized. However, the demand of organization is significant if we look at the society in general. In reality, the organizations are not divided into co-ops/no-co-ops, but into private/public organizations. Co-ops are considered to be private. The public organizations can be in the market as well.

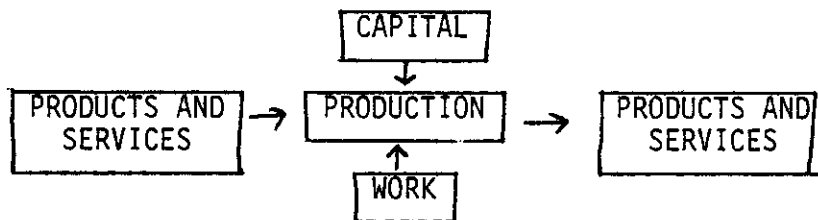
A taxonomy for analysis of the demand of organization.



In the literature it is often assumed that goods which are impossible to "individualize" are considered public goods. Skar says that this deviation is probably historical but not logical. He thinks that this has often happened because other alternatives for public enterprise forms for joint impact goods have not been found.

Example: Every town and village has a fire department. This organization protects resources. Exante the rate of individualization is minimal (6 in taxonomy). It is usually financed by taxes. But in rural areas, this service has to be organized in another way. In rural areas the protection is individualized and is not usually considered as society's activity. The question is whether this protection can be considered as a public activity at all. We can calculate an optimal (desired) response speed/house price ratio for a certain rate of protection. If we visualize the problem in this way, co-ops could be an alternative solution as well.

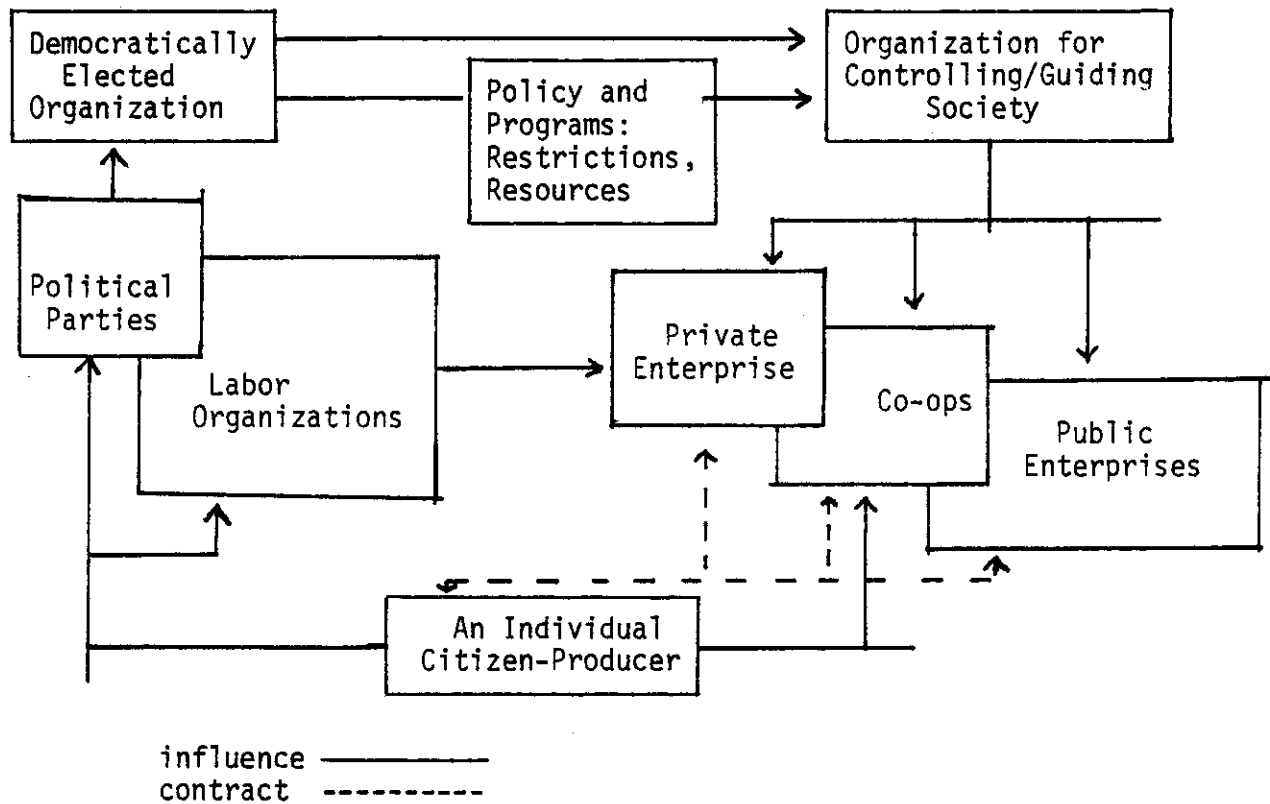
From the discussion above we can say that it is impossible to conclude that a certain product/service, according to its nature should always be organized either as public or private enterprise. A market-oriented firm does not even have to be a private one.



A private firm can have individualized activities in four of the main areas shown in the figure above. A public firm has usually individualized activities for two or at most three areas.

The co-op can be individualized in at most three areas but can be totally self-sufficient.

The Structure of Society and the System of Enterprise



A closed model considering the structure of the society and the system of enterprises in a country like Sweden.

According to this model, of all the ways for an individual to influence an enterprise, the path involving the fewest steps is through the cooperative, while the longest path involves influencing the enterprise through the political system. The model says nothing about the time required and what kinds of procedures and mechanisms connect the individuals in this system. Also "direct contact" provides the lowest costs in both participation and exploitation decisions.

The three different forms of enterprises have different needs for information. Private firms, which operate through contracts, need e.g., price information, which is not always necessary for public firms and co-ops.

The information needs control systems of firms in the social structure.

Information mechanisms:

- a. market mechanisms, which require prices
- b. administrative mechanisms, which require rules and procedures
- c. integrative mechanisms, which require special types of information (shared values, identification, social etc.)

The market is very effective in controlling economic actions, thus the information in form of prices has many benefits. But prices do not arise without costs and they are not without consequences.

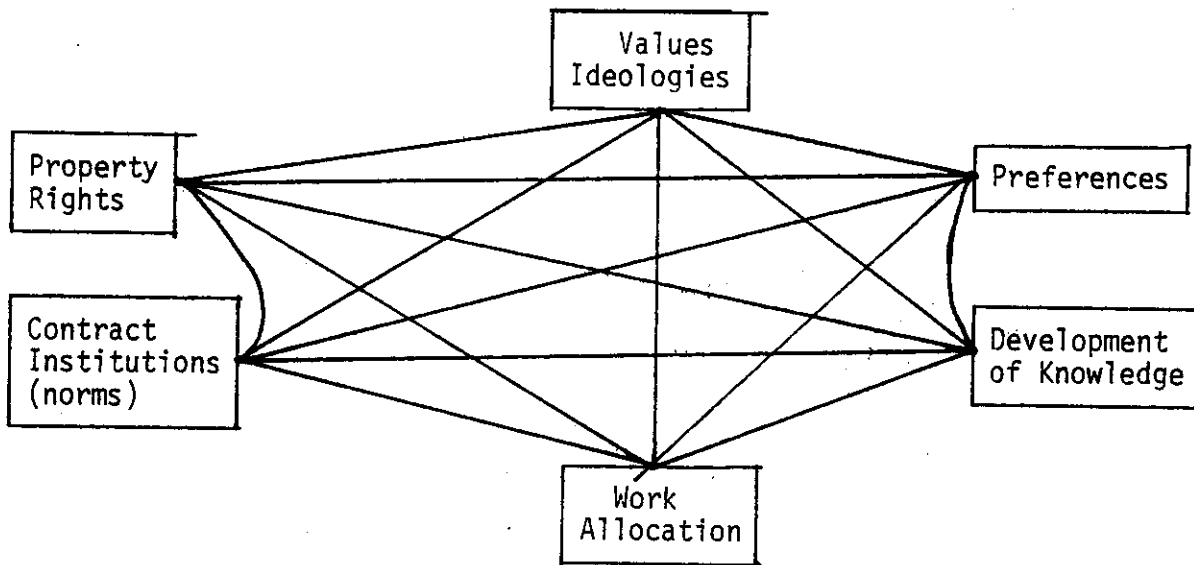
The cost of getting output from a given set of inputs can be assumed to be significantly higher in the administrative system than in other systems. This may be true because of the inability to set prices but also because of traditions.

The integrative system is not often mentioned in the literature. This kind of system (such as a co-op) requires some kind of a social unity, which can be considered to be important for the existence of a cooperative.¹ The 'cooperative' prices just operate inside the co-op. One of the characteristics of a co-op seems to be that comparing the values of inputs and outputs requires less information than in other systems.

¹Boulding, K. (1970), A mimeo on social dynamics.

Mechanism	Type of Information	Requirements	Sensitivity to Changing Requirements	Information Need	Typical to
Market	Prices	A. norms & contracts	large	very large	private enterprises
Bureaucracy (administration?)	Rules	B. legal authority + A	small	small	public enterprises
Integration	Solidarity tradition	C. Social unity, integration + A & B	very small in the short run	very small-very large	co-ops

In the figure above we can see that market and integrative mechanisms are more sensitive than the administrative system. As a result when society suspects that these two mechanisms have become ineffective, bureaucratic mechanisms are often used to try to improve their performance. The bureaucratic rules, and the conditions they embody, control the development of the organization in a way that benefits certain groups more quickly than does a system that relies solely on prices and other related information.



The institutional aspects of the system (principal)

Skar presents concepts which are fully dependent on each other. In reality in different situations, these elements receive different emphasis, but all the elements are relevant in the structure of a society. Skar examines each component of the above figure. Some points from his analysis are the following:

Property and Co-ops

- property (in the sense of a tangible investment) has been an important element in farmers' co-ops.
- property has a different meaning in consumer co-ops than e.g., in housing co-ops.
- property in the traditional meaning is not a necessary requirement in the establishment of co-ops.
- Nonetheless, it cannot be said that the property rights do not influence present co-ops. On the contrary the importance of property is increasing. As an outcome of that, some institutional rules are set to supplement

this function as a result the member structure e.g., in farmer co-ops can be maintained or even developed.

Co-ops and Institutional Connections

The society can redesign the rules and thus control the behavior of co-ops. e.g., in Scandinavian countries there are very few, if any, special requirements the co-ops have to meet. But, for instance, in Swedish agricultural trade contracts which establishes price and other rules for a farmer the co-ops become indirect participants because the farmer must be a member of an organization which has the agreement with the government.

The same situation arises in Norwegian fishermen's co-ops where the co-ops have the authority to negotiate on behalf of fishermen with the government. Thus, the co-ops conduct a societal function in order to make sure that an industry is working properly to satisfy the requirements the society has given to it, and to make sure that the industry can survive in the long run.

This means that the co-op is not just an instrument for members but also has societal dimensions. This implies on the one hand some legislative actions which recognize a co-op as an alternative economic organization, and on the other hand, may allow the co-op to exercise market controls that would otherwise require special laws. It raises an important question; to what extent do the members' and society's interests coincide?

The co-ops can also have responsibilities such as the obligation to deliver and to take commodities. Co-ops are also used in organizing a desired consumption alternative, e.g., for older people or for rural areas.

Considering the institutional bounds, we have to distinguish between different situations where tight bounds are needed in order to get an effective economic organization and situation where selective institutional

rules may be needed in order to maintain a working system. Strong institutional rules can decrease the efficiency and lead co-op to become organizations similar to public enterprises.

Co-ops and The Question of Knowledge

Co-ops are established by the members and they are controlled by the members. (This is what the law says, but discussion about other kinds of control and management systems has occurred in Scandinavian countries). The co-op therefore becomes dependent on the knowledge developed among the members about the current situation. Many co-ops have grown because of cultural ties as well as economic advantages. The members can hardly develop the knowledge these complex decision processes require. "The members' control is even in the best cases just getting acquainted with the firm and getting information about it."¹ This lack of knowledge is a restriction on collective decisions.

If it is in the interest of society to develop social entities, e.g., because these entities have cultural ties that bring people together, could it be good to develop institutional rules for encouraging this development? There are real connections between interest and knowledge development and further between knowledge and product marketing development etc. How these connections affect co-ops is not known. A possible hypothesis is that the stationary connections outlined in this model (see English summary) could especially encourage the demand for new technical solutions, new product innovations, etc. (c.f. Fleishman in another appendix).

¹Punkari, J. (1981), p. 61, Yritys- ja jarjastorakenteen kehittamistarpeet, Osuustoiminnan Sopeutumisen Taloudellisen Toimintaympariston Muutoksiin, The University of Helsinki, Department of Co-ops, Publications 1982/4.

Equilibrium Between Co-ops and Other Firms

Skar does not develop an equilibrium. He notes that attempts to develop such an equilibrium have been made e.g., by Louis (1976) and Dulfer (1977). But the organizational connections are missing in the requirements for an equilibrium.

The traditional business-economic theory does not recognize social and organizational aspects of markets.

The Implications of Commodity and Service Inputs for the Development of a Co-op

The establishment of a co-op requires that the members produce these services and products. Then the co-op arranges and probably processes them. Capital and technological development is needed. Thus, the firm can be acknowledged both as an allocative and technical unit. When the demand for physical facilities increases other things being equal the demand for new members increases. In practice this problem is solved by mergers. At the same time the question about the equilibrium relative to organizational connections becomes relevant; an enterprise as a social unit joins with another one and a new organizational unit has to be established. What the members seek from the cooperative can be assumed to be unchanged during this process, which implies that members' experiences come from the same base as before. However, more capital and technical knowledge are needed to operate the new organization.

Although the development of the enterprise as a technical unit gives improved service the members also experience increased capital dependency, longer planning horizons, increased uncertainty and higher risks. This is one of co-op's weak spots: technical dependency improves the co-op at the same time as the relative ability of the members to make adequate decisions decreases.

One thing which can occur in society is that the functions that firms of a certain size are not able to accomplish individually are given to a new firm established by the "old" firms. If this happens in the market economy, the new firm can be formed as separate firms. In the cooperative economy this function can have several solutions. One solution can be the establishment of an association, for instance, which develops its functions by itself. This is a hierarchical solution which involves more than just shifting the responsibility for a function within the functional unit. The co-op in the bottom of the system (e.g., a local cooperative) will conduct a part of its collective decisions on a higher level in the system. The other solution would be the establishment of a firm to provide the services desired.

Both of these solutions are implemented in cooperative development. The hierarchical development turns out to be a significant and necessary feature in the cooperative development in a system which in general can be considered as a market system.¹

Thus there is a close connection between the cooperative development and the development of institutional rules. In the period when a cooperative is being established a strong organizational connection seems to be a requirement for the development of the functional connection, and for the cooperative system which can affect the environment in the following stages. In the next stage it seems that problems of balance between the individual cooperative enterprise and the federated co-op and conflicts over which organization is more competent to make certain types of decisions can arise. (This topic is

¹The hierarchical moment turns out to be inevitable also in market economies (Williamson, 1975). It is true even in planning and development economies.

usually not discussed). This is supposed to be, however, a "normal" situation, which shows the shift of the power balance between the local and the federated co-op.

This development is related to the interests and institutional rules of the local co-op firms either as part of a system or as individual associations. During the stage when the co-op is getting established the association usually tries to affect the members' economic well-being through better terms of trade for the products and services the members produce. The same thing applies to co-ops which provide products and services to their members. Higher price margins open possibilities for self-financing. After the possibility of self-financing exhausts itself, there can be still a need for financing. At this point, the co-op's role as an allocation unit becomes more important. The co-op needs capital either from its members or from outside. There is a risk that the co-op is not designed to deal with financial operations (system connections weak). Here the institutional rules about how the society in general allocates capital become more important.

If co-ops had ever had a structure that had allowed them to solve their capital problem, the local's dependence on the whole system would increase even more and the power balance would shift up in the hierarchy. Thus, the local organizational units importance would have declined as well as the scope of collective decisions. This can be considered as a dilemma of co-ops. This could, however, be solved by an effective design of the organizational connection. The decision process could, however, get longer. To this we can add--without being either for nor against--that if it is a goal to preserve the cooperative model, would this kind of evolution of the system be necessary for cooperative development. Skars conclusion is that in a cooperative system

what is required is an increasingly decentralized decision making process in what Skar calls the "organizational connection" and at the same time more centralized decision making in the "technical connection."

Utterstrom, Carl

Member Democracy in Large Farmers' Cooperative Associations

(1982) Medlemsdemokrati i stora landbrukskooperativa foreningar, Landbrukskooperationen i Norden, pp. 56-76, Esbjerg, Danmark.

The Member problem in large associations, p. 72

Based on his study of several large Swedish co-ops, Utterstrom found no immediate and acute crises in the relations between the members and farmer cooperatives as a result of the establishment of large, federated co-ops.

Member participation did not decrease and members retained positive attitudes towards their co-ops.

The members can, however, have a positive attitude toward their co-op and still accept a bid of a private firm. The connection between attitudes and behavior is uncertain. Members' attitudes are relative to the expectations they have about the cooperatives.

The increasing complexity of co-ops is a bigger threat to member democracy in the future than is the size of a co-op itself.

In the complex environment of a large (merged) co-op, it is increasingly difficult for a board member to be a link between the members and the co-op management. A study conducted by Nilsson (1979)¹ showed that only a few contacts between farmer-members and board members had occurred in Swedish co-ops.

Another significant problem is that the membership of farmer co-ops becomes continuously more heterogeneous.

- the geographic areas of co-ops have increased
- traditional farming methods differ across regions

¹Nilsson, B. (1979), Fortroendevald i en Storforening, Uppsala, Sweden.

- improvements in agriculture; specialization; small farmers may have another profession.
- a difference in the points of views between young, enthusiastic farmers and old, experienced farmers
- young, heavily indebted farmers and old debt-free farmers

The existence of hobby farmers, heavily indebted cattle farmers just getting established, older homeowners, active entrepreneurs, passive 'owners,' commercial grain producers, cattle breeders who purchase feedgrains, small family farmers, specialized hog producers, milk producers in remote areas, and all purpose farmers make it difficult to define an 'average' farmer.

One of the biggest problems for farmer co-ops in Sweden in the last few years has been the forest-owner cooperative movement. (Most farmers also own forest land; therefore, the forest co-ops are a form of farmers' cooperative.) In the early 1970s the world market prices of forest products were high and the profits in the wood industry were attractive. Forest co-ops grew quickly, invested in new plants, and bought firms. They forgot to increase their reserves enough, their solvency was low, and the associations paid high prices. When the price of forest products eventually fell, the co-ops attempted to increase the pressure on members to patronize the organization. Many members refused, and looking for better prices sold to competitors. The membership became looser and the public and private forest firms gained stronger market position at the expense of the forest co-ops.

Otto Wiese (1974)

"The competition between the cooperatives and private firms"

(1974), Osuustoiminnallisten ja yksityisten yritysten valinen kilpailu, pp. 78-99, Osuustoiminnan teoriaa ja kaytanta, The University of Helsinki, Department of Co-ops. Translated from "Theorie und Praxis der Kooperation" Schriften zur Kooperationsforschung, A. Studien Band 3, 1972.

Wiese asks why the co-ops do not always beat their private competitors. He investigates whether a balance in competition between these quite different forms of economic enterprises is reached.

In principle the transactions between the co-op and its members are not affected by the market system. "The co-op is in theory from another economic world, but in reality it sees itself involved with market process everywhere." Wiese assumes in model that members establish co-ops and use their services only if they will benefit economically from co-ops. He also assumes that the market already exists.

Wiese examines the relationships between the co-op and its members, and concludes that these relationships are not always simple. If there are not any market alternatives for the members, the relationships are administrative (Schmid). In this situation the co-op is in a bargaining situation only with the environment, not with its members. But in cases where noncooperative firms also offer their services to the members, the co-op gets involved with the market, and can become totally oriented towards bargaining with its members.

Wiese says that there are co-ops between these two extremes, depending on the balance between the market and the social relations. He says that the noneconomic factors are, however, very seldom decisive in the members valuation of the cooperative.

The Potential Market Service and the Cooperative

Wiese defines the concept "potential market service," which is the ability of a certain market to serve a certain customer whether s/he wants it or not. He says that the potential market service is a function of the prevailing market structure. He examines this concept in perfect competition, oligopoly and monopoly situations were the co-ops do not exist, yet.

Introducing cooperatives into the examination, Wiese asks in what circumstances and how strong cooperatives have to be, in order to penetrate the market and survive. He emphasizes that he is attempting to explain the intensity of co-op activities in changing market situations, not the conditions necessary for cooperatives to exist.

He states that the worse the potential market service is, the more likely the co-ops are to appear and the better the potential market service is, the more likely people are to rely on bargained price setting. Thus, he says, cooperative activity becomes a function of potential market service. Wiese goes on to examine the determinants of that function.

The General Stability Between Co-ops and Private Enterprises

1. In some situations, a co-op may be established to overcome disadvantages imposed on a group by a monopoly. At first the cooperative will just improve the position of the members but have no direct effect on nonmembers. The co-op reduces the demand facing nonco-ops and thus their price has to decline, at least temporarily. Probably some marginal suppliers exit.

For the advantages of the co-op to continue, new competitive elements must be introduced into the cooperative. These can be: (a) potential competition by new members and new co-ops, (b) more intensive competition in situations where the members do not agree to patronize the cooperative exclusively, and (c) more intensive competition when the co-ops start dealing with non-members.

2. How long does the process of increasing cooperation go on and does it lead into some long range balance or stable market configuration between co-ops and private enterprises?

During the process of increasing cooperation, the market service ability increases all the time, but at a diminishing rate. The marginal revenue to a potential member of joining the cooperative declines when getting closer to the "optimal" market service situation.

If there were no offsetting forces, the process would go on until the marginal benefit approached zero. We would then have price and output levels consistent with perfect competition. Wiese's offsetting forces are:

- a. The costs of becoming a member of a cooperative,
- b. the decline in members alternatives,
- c. the possible decline in the intensity and dynamic of competition.

a. Becoming a member requires duties and responsibilities. The marginal member's MR approaches his MC, that the quantitative improvement in the market service available to him would be approach the return to his investment outside the co-op (the opportunity cost problem in co-ops).

If the co-op starts dealing with outsiders, the situation becomes more complicated. This activity requires investments, which can be made by deferring patronage refunds, if the members are unwilling to pay more from their membership--which is likely. If the members impose no restrictions on whom the co-op can serve, the co-op will act like a profit maximizing firm. (No difference anymore.) Most co-ops do not have such restrictions. Thus, the balancing process when it involves nonmembers goes on in the same manner as outlined above. When the limit set by members on the business with outsiders has been reached, potential members again have to balance the marginal costs and benefits of membership.

b. When the market share of co-ops increases, the other (private) alternatives decrease. Membership in many similar co-ops is usually not possible. The transactions costs in changing to another co-op are usually higher than those of changing between two private firms.

c. In principle the transactions between members and the co-op are outside the adjustment process of the market. At the same time, co-ops can correct, e.g., potential monopoly situations. But if the co-op grows it can become a monopoly by itself. Wiese states, "usually the co-ops do not compete with each other, at least for members." In Scandinavia countries even this kind of competition is seen.

When (if) the co-op consistent co-op principles, does not pursue the profit maximization, the quality of its services is likely to decline with imperfect competition. Wiese regards this as most important while examining the problems in the competition.

3. Taking into account all the (marginal) benefits and (marginal) costs of the cooperative activity (relative to the "last" member which uses the co-op), some general statements about the competitive balance between private enterprises and co-ops can be presented.

a. The co-ops always improve the market service situation. When the cooperative activity increases, the marginal benefits decline.

b. There are disadvantages that tend to offset the co-ops' improvements in filling the needs: the obligatory buying of membership, which imposes on the member the obligation to share in the co-op's risks and responsibilities; the decline of market alternatives; and the decline in the competitive intensity and dynamic of the market.

It follows from these:

4. The competitive balance and thus, the stability between co-ops and private enterprises is achieved when the marginal benefit to a potential member of the cooperative activity equals to its marginal disadvantages (cost).

Where this balance occurs depends on the situation. Generally we can say that the equilibrium cooperative market share is smaller, the more intense the competition (without a co-op) is.