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Free Riding or Trust? Why Members (do not) Monitor their Cooperatives

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Abstract

It is often observed that members have little interest in monitoring their cooperatives. One explanation is that the members are free riders, hoping that others will perform the task. Another explanation is that the weak member interest is a consequence of members having trust in the leadership. These competing explanations refer to the theory of collective action and the social capital paradigm, respectively, and may be linked to the classical *Gesellschaft* and *Gemeinschaft* concepts. Hence, one may expect free-rider behavior when conditions of *Gesellschaft* exist and trustful behavior when *Gemeinschaft* conditions rule. These propositions get support from five previous studies of members' readership of the annual reports of their cooperative. In large and heterogeneous memberships there is free-riding behavior, which explains the members' low interest in governing their cooperatives. To a limited extent a membership may have a subset of members who trust the leadership so they do not read the annual reports.

Keywords: free riding, trust, Gemeinschaft, Gesellschaft, cooperative

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Introduction

A cooperative firm exists because a number of economic actors – the members – seek to get benefits that they could not achieve in a free market. For the cooperative to serve its members well it must be governed by these members. If member influence is to be effective, the members have to be active in their role as the cooperative's principals. Active participation by a reasonably large number of members in the member democratic processes is, however, not sufficient. The members must also have insights into the firm that they control. If uninformed members are to make decisions about their cooperative, the firm's survival in the market is at danger.

This study analyzes the factors that affect members involving themselves in the governance of their cooperative. The aim is to identify the circumstances under which cooperative members may exhibit a propensity to monitor their cooperative. Although the problem at hand is important, no systematic research has focused on the determinants behind members' involvement in the monitoring of their cooperatives. The theoretical reasoning is illustrated with data that originate from five empirical studies of members' reading of their cooperatives' annual reports.

Issues concerning member monitoring are especially urgent because many of today's cooperatives are developing in a direction where member control becomes increasingly difficult. Due to intensified competition the cooperatives are expanding (Van der Krogt et al., 2007) and they integrate forward in the value chain to get more profitable value-added businesses. The new cooperative structures affect the members profoundly. Although member control of cooperatives is becoming more difficult the members may have a desire to retain the control. Österberg and Nilsson (2009) found that the most important factor behind member satisfaction with a cooperative is whether members feel that they have an influence in the governance.

The article is structured as follows. In the next section follows an account of the study's theoretical bases, which provide two alternative explanations for member behavior: free riding and trust. These two seemingly opposing theories are linked to each other via the classical sociological concepts of *Gemeinschaft* and *Gesellschaft.* On this basis three propositions are stated.

The next section presents five empirical studies, published between 2006 and 2010. They all report about members' reading of their cooperative's annual reports. All empirical material for this present study is collected from these five publications, i.e. no primary data has been collected for the present study.

In these studies one may identify a balance between free-rider behavior and trustful behavior. Either the members could invest time and effort in examining the annual reports, thereby being prepared to use their voice option, or they could care

less about the annual reports. In the latter case they can either hope that others will scrutinize the annual reports (free riding behavior) or they may have trust in the leadership, such that they do not consider it necessary to take any interest in the annual reports. These studies cover a broad specter of cooperatives with regard to industries, sizes, and countries. However, five cases are not enough to verify or falsify the theoretical propositions. The cases rather serve as illustrations.

In the last section it is concluded that the *Gemeinschaft-Gesellschaft* concepts seem to be instrumental to explain the extent to which members govern their cooperative firms.

Theoretical framework

Free riding

The Theory of Collective Action (Olson, 1965) states that organizations that produce benefits for a group of individuals can hardly be governed, not even established. The theory is based on presumptions of "economic man", i.e. humans are considered to be rational and self-interest seeking. As the individual maximizes personal gains, he or she does not want to use personal resources if he or she must share the gains with others. From the individual's point of view the costs will exceed the benefits. The Theory of Collective Action has been called "*the* central subject of political science" (Ostrom, 1998:1).

Hence Olson (1965) demonstrates that rational, individual behavior does not lead to rational group behavior. Even if the aggregate benefits exceed the aggregate costs for achieving a common goal, it does not logically follow that collective action takes place. All group members may realize that an organization could provide them with some collective goods, but each individual wants others to establish and run that organization, i.e. everybody wants to be free riders. Free riding implies that an individual tries to gain advantages from other individuals, for example by letting others conduct a task from which the individual himself or herself gets advantages. When everyone wants to be a free rider, no collective action takes place. The solution is not to have paid directors or executives as the members must control these agents.

Prior to Olson (1965), groups were viewed as voluntary organizations furthering their common interests. This traditional group theory was based on the degree of consensus. An individual will voluntarily act in support of common group interests and values as a logical consequence of the premise of rational self-interest. Exceptions to this rule occur when the leadership ignores the group interests and is serving other ends. This is possible due to asymmetrical

information, i.e., the leaders know more than the rest of the group members (Olson, 1965:5).

Hume, 1739, was the first to treat the collective choice problem in group action. He writes that when men have protected themselves against each other's weaknesses and passions, they "begin to taste at ease the sweets of society and mutual assistance". Hume illustrates this situation by looking at how two farmers cooperate, assuming that they "know each other's mind" and that failing means "abandoning the project":

> Your corn is ripe to-day; mine will be so tomorrow. It is profitable for us both, that I should labor with you to-day, and that you should aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labor with you upon my own account, in expectation of a return, I know I should be disappointed, and that I should in vain depend upon your gratitude. Here then I leave you to labor alone: You treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security (Hume, 1984 [1739]:590).

Hume observed that it was impossible for a thousand persons to agree on any such action, "it being difficult for them to concert so complicated a design, and still more difficult for them to execute it; while each seeks a pretext to free himself of the trouble and expense, and would lay the whole burden on others" (ibid.). Another illustration of the need to cooperate is given by Smith ([1776] 1991: 12–13). He contrasted human beings with animals by using the image of two greyhounds fighting while chasing a hare. As the two dogs fight rather than cooperate, the hare escapes leaving both dogs without a meal.

According to the Theory of Collective Action, member democracy in cooperative societies is likely to be hampered by the members' propensity to free ride and not cooperate. Free riding is commonplace in contexts characterized by collectivism, and cooperatives are inherently collective organizations, aiming at producing benefits for all the members. Members might refrain from monitoring their cooperative, hoping that other members may invest time and efforts to conduct this task for the benefit of all members.

Theories about member control have been elaborated for many years. For example, in 1911 Michels (1966) coined the expression The Iron Law of Oligarchy, which means that originally democratic organizations will sooner or later end up being controlled by a self-recruiting elitist group of powerful persons.

Trust

Another type of group behavior may be characterized by social capital. This implies that the members have trust in one another to the extent that individual, utility-maximizing behavior is overshadowed by benefits for the group. Social capital may be seen as solidarity within the group, or social ties, or a certain degree of cohesion.

Human choice may be driven by various motives not limited to personal gains that are based on anticipated consequences (pleasure and pain). Altruism such as that undertaken by voluntary entrepreneurs could therefore be conceived as behavior that is influenced by expectations of pleasure and pain for other persons (Simon, 1993). Such a definition would come close to everyday common-sense understanding of altruism and entrepreneurial behavior: "It includes economic gain among the selfish motives but does not restrict selfishness to it alone" (Simon, 1993:158).

Neoclassical economics assumes that people maximize utility but postulates nothing about what utility is. With only this assumption, it is impossible to distinguish altruism from selfishness. One might call altruistic any choice that decreased the utility of the chooser while increasing the utility of others; but such a definition is useless. With the appropriate utility function, a person whose utility derived from giving to other people could selfishly give away millions of dollars (Simon, 1993:158).

Carter and Ghorbani (2003) define trust as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor or control that party. Luhmann (1979) argues that trust is a social relationship subject to its own set of rules and that it occurs within a framework of social interaction and personality.

The social capital approach can be regarded as an attempt to combine sociology and economics. Coleman (1988:95) was the first to define social capital as people's ability to cooperate in achieving a common goal. This voluntary cooperation is self-enforcing and establishes an informal institution without any written rules in contrast to cooperation enforced by a third party following written rules of a formal institution.

Social capital is often built up in small groups where "face-to-face" interaction generates common social norms (or "social glue") and creates predictable behavioral patterns. In this way, culture and behavioral rules are built through repetition, tradition, and example (Svendsen and Svendsen, 2003). This is a credible informal contract because social ostracism helps to enforce it. If someone does not follow these informal rules, that person will be ostracized by the group and, as such, confront extra costs from not cooperating.

The most important impact that the type and extent of shared norms will have on the strategies available to individuals is related to the level of opportunistic behavior that appropriators can expect from other appropriators (Ostrom, 1990:36). Ostrom uses Williamson's (1975) definition of opportunism, namely "self-interest with guile", and continues:

> In a setting in which few individuals share norms about the impropriety of breaking promises, refusing to do one's share, shirking, or taking other opportunistic actions, each appropriator must expect all other appropriators to act opportunistically whenever they have the chance. In such a setting it is difficult to develop stable, long-term commitments. Expensive monitoring and sanctioning mechanisms may be needed (Ostrom, 1990:36).

However, building of trust in smaller groups facilitates the removal of opportunism due to the possibility of social sanctioning, thus leading to a higher level of aggregate economic growth (Ostrom and Ahn, 2009). This crucial feature of social capital, operationalized as trust, was observed by Hume already in 1739: "When a man says he promises anything, he in effect expresses a resolution of performing it; and along with that, by making use of this form of words, subjects himself to the penalty of never being trusted again in case of failure" (Hume, 1984 [1739]: 590).

The concepts of social capital and trust have significance in the context of cooperative organizations. These organizations consist of two parts, namely a cooperative society with a number of members and a cooperative firm, often working on market conditions. Depending on the type of operations of a cooperative firm, members become more or less dependent upon the cooperative and thereby also to some extent vulnerable. Hence, trust is necessary in the relationships between the cooperative and the members as well as between the different members.

Propositions

The two theories described above may seem to be opposite to each another. They can, however, be regarded as supplementary if linked to the concepts of *Gesellschaft* (collective action theory and free riding) and *Gemeinschaft* (social capital and trust).

These concepts were coined in 1887 by Tönnies who is often called one of the founders of the discipline of sociology. The concepts have been translated into English as "community" and "society" (Tönnies, 2001), but these terms do not cover the original German terms very well so *Gemeinschaft* and *Gesellschaft* are often used also in English language texts. The concepts are used also by today's researchers, for example rural sociologists and pedagogic scholars (e.g., Chryssochouo, 1997; De Cindio et al., 2003; Adler et al., 2008). *Gemeinschaft* and

Gesellschaft are ideal type concepts in the sense of Max Weber. They may exist in their extreme form in real life but there is also a host of intermediary forms.

Gemeinschaft exists when humans know each other and, above all, care for each other. Hence it often concerns interaction within relatively small groups. The founders of a cooperative society are normally a few individuals who know each other, and thus have trust in each other. *Gemeinschaft* can, however, also be found in larger groups, for example within a social class or among religious believers. Hence, *Gemeinschaft* may be found also in large cooperative memberships.

Gesellschaft exists when the actors are unknown and anonymous to one another, like in a market setting. *Gesellschaft* interaction is more likely to occur within large groups. It may characterize the interaction within large cooperative memberships, including the members' attitudes towards the cooperative society and the cooperative firm. *Gesellschaft* is, however, found in small groups, for example, when a customer and a salesperson are bargaining.

Gemeinschaft and *Gesellschaft* may oppose each other. An individual who acts according to *Gesellschaft* norms in a *Gemeinschaft* setting will have problems, and vice versa. For this reason the balance between the two modes of interaction decides the degree of success of an individual or an organization. An actor must know the balance between the two interaction types and act accordingly, or the actor must choose a setting that is suitable for a specific way of acting.

The problems of conflicting *Gemeinschaft* and *Gesellschaft* are aggravated as the two are often organizationally related to each other and thus affect each other (Nilsson and Hendrikse, 2011). This is the case of cooperative organizations, comprising both a cooperative society (often with *Gemeinschaft* relationships) and a cooperative business firm (*Gesellschaft* relationships).

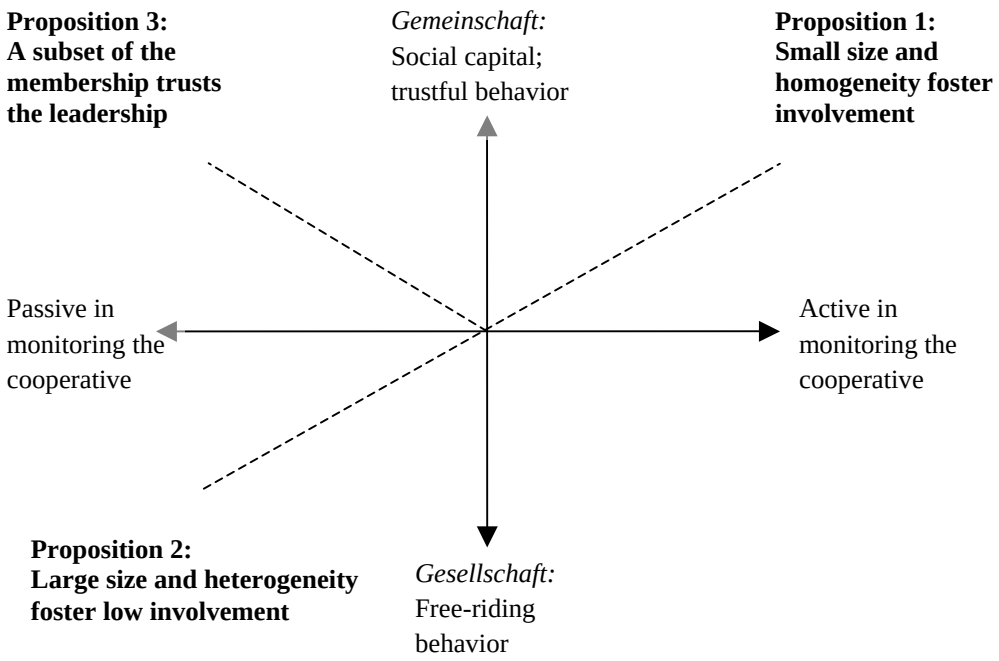
On the basis of the discussion above, three propositions may be stated:

1. A cooperative that has a small and homogeneous membership and member-related business operations has members who are interested in monitoring their cooperative. There is human interaction of a *Gemeinschaft* type, giving rise to a kind of trust, which fosters willingness to participate in the member democracy.
2. When a cooperative has a large and heterogeneous membership and many business operations that are not member-related, the members have less interest in involving themselves in monitoring the cooperative. The relationships within the membership are characterized by *Gesellschaft* and a mentality exists among the members giving rise to much free riding behavior.
3. Not all the members who refrain from taking part in monitoring their cooperative do this because they want to be free riders. Some of the passive members may think that they do not need to monitor their leaders because they trust the leadership and the fellow members. There may be a sub-culture of

Gemeinschaft within an organization that is basically characterized by *Gesellschaft.*

Figure 1 shows the propositions as vectors in three of the four fields. It is difficult to imagine a situation where also the "south-eastern" quadrant would be occupied. If the members are free riders they will not be active in monitoring any cooperative.

Figure 1: Members' involvement in monitoring their cooperative in relation to free riding and trustful behavior.



Empirical illustrations

The dimension of member monitoring chosen for our analysis is the members' readership of the annual reports of their cooperative. If the members are able and willing to involve themselves in the democratic process, they should be informed about the cooperatives' business operations. The most complete account of these operations is found in the annual reports. These reports provide information that is authorized by the cooperatives and approved by external auditors. To illustrate the propositions advanced in the preceding section, we use empirical data about

members' monitoring of their cooperatives assembled from five previously published studies (Table 1). No primary data were collected for the present study.

Five studies about members' readership of their cooperatives' annual reports have been conducted by other authors, covering three countries (New Zealand, United Kingdom, and Sweden) and three industries (agricultural cooperatives, retailer cooperatives, and consumer cooperatives). All five studies survey a broad spectrum of issues concerning members' readership of annual reports. The present study utilizes only a fraction of the published information. Table 1 presents some data about the five cooperatives and the corresponding studies. The data in the table are from the time when the empirical work was conducted.

Four of these five studies were conducted by a group of three New Zealand researchers (Lord, Robb, and Shanahan). They basically used the questionnaire from the pioneering study about small shareholders' readership of the annual reports of investor-owned firms (Lee and Tweedie, 1975a, 1975b), adapted to reflect specific cooperative issues. The fifth study, investigating members of a Swedish agricultural cooperative, used the same questionnaire as the group of New Zealand researchers. Hence, the prospects for comparability are good.

Lord et al. (2005) sent questionnaires to the 109 food retailers who were members of a New Zealand retailer cooperative (Foodstuffs) supplying the retailers with goods and services. The results indicate that the members read the cooperative's annual report quite thoroughly – much more than the IOF shareholders that Lee and Tweedie (1975a, 1975b) had investigated.

The second and third investigations of cooperative members' readership of annual reports are presented in Robb et al. (2006). Both cooperatives are U.K. consumer cooperatives. Questionnaires were sent to 600 elected representatives of The Co-operative Group (CWS) and to 80 members of Chelmsford Star Co-operative who had requested a copy of the annual report. The respondents were not rank-and-file members. The findings show that most respondents in both cooperatives read the annual reports thoroughly.

Table 1: Five studies of members' readership of the annual reports of their cooperative: attributes of the cooperative firms (rows 1-6) and research design (rows 7-9)

Variable	Foodstuffs (South Island), NZ (Lord et al., 2005)	The Co-operative Group (CWS), UK (Robb et al., 2006)	Chelmsford Star Co-operative, UK (Robb et al., 2006)	Ravensdown, NZ (Shanahan et al., 2007)	Lantmännen, Sweden (Gaurwitsch and Nilsson, 2010)
1. Type of cooperative	Retailer	Consumer	Consumer	Agricultural	Agricultural
2. Established	1925	1863	1867	1977	1895
3. Number of members	109	3,100,000	48,000	26,000	42,000
4. Number of employees	44	85,000	540	650	21,800
5. Type of operations	Sales of products and services to food retailers	Food retailing, banking, insurances, pharmacies, dept. stores, travel agencies, motor vehicles, funerals, etc.	Food convenience stores, travel centers, funeral services	Farm inputs: fertilizers, veterinary medicine, pesticides, insecticides	Farm inputs, grain handling, grain milling, bakeries, broiler slaughter, pet foods, pasta, plant breeding, agricultural machinery, ethanol, etc.
6. Number of countries of operations	1	1	1	1	19
7. Number of respondents	49	128	31	386	479
8. Response rate	46%	21%	39%	34%	40%
9. Respondents	Members with A-shares (voting rights)	Elected representatives: "members of the area committees"	Members "who had requested copies of the annual report"	Rank-and-file members	Rank-and-file members

Shanahan et al. (2007) investigated how the members of a New Zealand farm supply cooperative (Ravensdown) read the annual report. Questionnaires were sent to a random sample of 1000 members. The findings indicate quite low interest probably because the respondents were rank-and-file members. When the farmers were asked to explain various accounting concepts in the annual reports, "[t]here was a critical lack of understanding of most terms" (Shanahan et al., 2007:167).

Gaurwitsch and Nilsson (2010) conducted a survey among a sample of 1200 members of the large Swedish cooperative Lantmännen (Swedish Farmers' Supply and Crop Marketing Association), which sells farm inputs and is engaged in grain handling and processing. The Lantmännen members read the annual reports even less than the Ravensdown members.

On the basis of the descriptive information presented in Table 1, the five cooperatives may be classified in terms of *Gemeinschaft* and *Gesellschaft* as shown in Table 2.

Table 2: The five cooperatives classified in terms of *Gemeinschaft* and *Gesellschaft*

Variable	Foodstuffs (South Island), NZ	The Co-operative Group (CWS), UK	Chelmsford Star Co-operative, UK	Ravensdown, NZ	Lantmännen, Sweden
Size of operations	Small	Extremely large	Small	Fairly large	Very large
Diversification of operations	Focused operations	Extreme diversification	Some diversification	Some diversification	Much diversification
Heterogeneity in the membership	Homogeneity	Considerable heterogeneity	Homogeneity	Some heterogeneity	Considerable heterogeneity
Size of the membership	Small	Extremely large	Fairly small	Fairly small	Very large
Expected norms in membership at large	Predominantly *Gemeinschaft*	Extreme *Gesellschaft*	Moderate *Gesellschaft*	Some *Gesellschaft*	Strong *Gesellshaft*
Expected norms among the respondent groups	Members with A-shares (voting rights): Predominantly *Gemeinschaft*	Elected representatives: "members of the area committees": Some *Gemeinschaft*	Members "who had requested copies of the annual report": Mainly *Gemeinschaft*	Rank-and-file members: Some *Gesellschaft*	Rank-and-file members: Strong *Gesellschaft*

Data

The questionnaire used in all the five studies is presented in an appendix to Shanahan et al. (2007). Of all the questions in the questionnaire only two are used for this study. The two questions provide data about the members' readership of the annual reports:

1) *Which section of the annual report do you read, and how thoroughly do you read each?*

The question was followed by a table that listed 14 sections of the annual report with three columns for each: "Do not read at all" (score=0), "Read briefly for interest" (score=1), and "Read thoroughly" (score=2). The results were aggregated for the 14 sections as described by Lord et al. (2005:9): ratings of 2, 1, and 0 were summed for the 14 parts of the annual report, giving a possible maximum score of 28. Scores of 18 and above (including at least three of the four financial reports) were categorized as "thorough readers"; scores below 18 were classified as "less interested readers"; respondents with score 0 (those who did not read any of the report sections) were classified as "non-readers".

2) *For those who do not read the annual report at all: Why do you not read the annual report?*

The answers to this question were classified into five categories:[3]

- *It is of no interest.* The most likely interpretation of this answer is ignorance, which is to say *free riding behavior.* Alternatively, it may be understood as "It is of no interest because I have trust in the directors". This, however, is not likely.
- *Lack of time.* This answer is evidently an excuse for disinterest, i.e., *free riding.* The factual situation that the respondent does not have at least an hour to peruse the report is hardly ever true.
- *Difficult to understand.* This option may be true for a large proportion of the respondents. On the other hand, if the annual report was considered important by the respondent, they would at least try to read it. Therefore, this response means ignorance and thus indicates *free riding.*

3 In the first four studies this was an open-ended question and the researchers coded the answers afterwards into five categories that were essentially extracted from the respondent's verbal descriptions. In the fifth study (conducted later, in 2010) the respondents were directly presented with the same five categories to avoid manual coding in a relatively large sample.

- *The annual report is irrelevant.* This alternative is a clear expression of ignorance, so it is used to mean *free riding* behavior.
- *I trust the directors.* This option indicates that the directors have *social capital* in the minds of the respondents.

The first four responses are interpreted as free riding behavior while there is only one response alternative to express trustful behavior. This imbalance is a consequence of the fact that, in the first four studies, the respondents were presented with an open-ended question, where they were more prone to answer in terms of free riding rather than trust.

Readership of the annual reports

Table 3 shows that the readership of the annual reports diverges considerably among the five studies. Chelmsford is the extreme case with highest member interest. When assessing these figures one should bear in mind that the respondents were members who had ordered a copy of the annual report. Hence, these respondents were from the outset selected so that they should be high in terms of social capital. Against this background it is remarkable that as many as 52% are classified as "less interested readers" (i.e., had only glanced through the report).

Table 3: The extent to which members read their cooperative's annual report (percent and number of respondents answering the relevant question)

Readership category	Foodstuffs (South Island), NZ	The Co-operative Group (CWS), UK	Chelmsford Star Co-operative, UK	Ravensdown, NZ	Lantmännen, Sweden
N	49	128	31	386	489
Non-readers	35% (17)	4% (5)	0% (0)	22% (85)	32% (157)
Less interested readers	53% (26)	67% (86)	52% (16)	75% (289)	64% (311)
Thorough readers	12% (6)	29% (37)	48% (15)	3% (12)	4% (21)

The second most interested respondent group is from CWS. All CWS respondents are elected representatives. As such one would expect them to read the report thoroughly as they are responsible for the membership at large. Still, less than one-third read thoroughly and two-thirds read only briefly. A tentative explanation might be that CWS is a huge firm with a conglomerate structure, so that it is difficult even for elected representatives to understand and show interest in the annual report. It may also be that the number of elected representatives is so large that it becomes easy for many to hide in the crowd (i.e., free ride).

The Foodstuffs respondents were the 109 members who owned voting shares. At the same time there were 1263 other members, mainly retailers with generally smaller business operations. Although the respondents were businessmen and probably had relatively large retail outlets, more than one-third did not read the annual report at all and more than half the respondents read it only briefly.

The New Zealand agricultural cooperative Ravensdown sells farm inputs to a large number of farmers. Only 3% of the respondents read the annual report carefully. Three-quarters read the report only briefly and more than one-fifth do not read at all.

The cooperative with the lowest readership is Lantmännen. Almost one-third of the respondents did not read at all, and nearly two-thirds only glanced at the annual report. Thorough reading is done only by 4%, i.e., about the same as in Ravensdown.

Motives for not reading the annual reports

In both Foodstuffs and CWS, the number of non-readers is very small (Table 3) and the percentage distribution of the various reasons given for not reading the annual reports must be interpreted with caution. Keeping this caveat in mind, we note that in both cooperatives all the motives for not reading the reports are indicators of a tendency to free ride – lack of interest, no time, difficult to understand (Table 4).

The number of non-readers in Ravensdown and Lantmännen is substantially greater than in CWS and Foodstuffs, ensuring higher reliability of the results. For both cooperatives most non-readers give reasons that express free-rider behavior – the report is of little interest, they have no time to read, the report difficult to understand (Table 4). However, one-tenth of respondents in both cooperatives trust the directors sufficiently so that they do not have to read the annual report – an indication of trust or social capital.

All the Chelmsford respondents read the annual report (Table 3). Therefore there were no answers to the question about reasons for not reading.

Table 4: Reasons given by members for not reading their cooperative's annual report (percent and number of respondents answering the relevant questions; multiple answers allowed)

Variable	Foodstuffs (South Island), NZ	The Co-operative Group (CWS), UK	Chelmsford Star Co-operative, UK	Ravens-down, NZ	Lantmännen, Sweden
N	11	7	0	82	252
FREE RIDING *Lack of interest*	45% (5)	29% (2)	0	36% (27)	46% (115)
FREE RIDING *Lack of time*	36% (4)	29% (2)	0	26% (25)	27% (68)
FREE RIDING *Difficulty in understanding*	18% (2)	42% (3)	0	24% (17)	12% (30)
FREE RIDING *The annual report is irrelevant*	0% (0)	0% (0)	0	9% (6)	7% (17)
TRUST *I don't need to as I trust the elected representatives*	0% (0)	0% (0)	0	10% (7)	9% (22)

Interpretation

When interpreting the findings about Foodstuffs it is essential to consider that the respondents are only a fraction of the total membership. The A-members are so few (109) that there is possibility for personal acquaintances and thereby also prospects for social capital. Nevertheless the amount of readership is fairly low – only 12% were thorough readers and those who stated why they did not read answered in terms of free riding.

Because the respondents in the CWS study were elected representatives, a high level of readership is to be expected. These respondents should reasonably invest time and effort in reading the annual report. It may also be that there are some

personal relations among the group because they might meet on various occasions in their duty as elected representatives. Only a few non-readers exist, and those give explanations of free riding type.

Because the respondents in the Chelmsford study had requested a copy of the annual report, it is to be expected that these persons feel involved in the cooperative, and therefore their behavior should be characterized by social capital. This is actually the case. The interest in reading is huge. Not one single respondent reports that they did not read the annual report.

The Ravensdown members rank high in free riding as well, though not to the same extent as the Lantmännen members. Their readership is low and their motives for not reading indicate predominantly free-riding behavior. Still, one out of ten among the non-readers declared trust in the leadership. The business operations in Ravensdown are more focused than those of Lantmännen and there are no overseas operations. Furthermore the ownership is more individual, which may increase the members' interest in the cooperative.

The Lantmännen members are characterized by a high level of free riding. They do not read the annual reports very much, and when explaining why they do not read, nine-tenths mention reasons that indicate free riding. Still, there are weak indications of trust in the leadership. These observations should be assessed in the light of this cooperative being extremely large and having members throughout Sweden. Therefore the membership becomes very heterogeneous because farming conditions in the south and the north of Sweden differ considerably. Furthermore, the business operations of Lantmännen cover a wide spectrum of farming operations, which means that the membership consists of grain and oilseed growers, dairy farmers, cattle breeders, horse owners, etc. These different specializations contribute to membership heterogeneity. Furthermore, less than one-fourth of Lantmännen's operations concern business with the members – the rest is processing and diversified operations. Lantmännen is also a multinational conglomerate with activities in 19 countries. It is reasonable that the Swedish farmers have difficulties in understanding these operations, and even that they have limited interest in operations that are peripheral to their own farming. This is even more so because the members have little individual ownership in the cooperative. Unallocated (collective) capital dominates strongly. As concerns ownership the two agricultural cooperatives – Ravensdown and Lantmännen – differ considerably.

Table 5: Main characteristics locating the five cooperatives in the plane of Figure 1

Cooperative	Norms (Table 2)	Active interest (Table 3)	Behavior (Table 4)
Foodstuffs	*Gemeinschaft*	3	Free riding
CWS	*Gemeinschaft*	2	Free riding
Chelmsford	*Gemeinschaft*	1 (highest)	--
Ravensdown	*Gesellschaft*	4	Free riding and trust
Lantmännen	*Gesellschaft*	5	Free riding and trust

Table 5 summarizes the main dimensions used to characterize the cooperatives in this study: the *Gemeinschaft/Gesellschaft* norm, manifestation of active interest in cooperative activities as manifested by readership of annual reports, and the behavior mode (free riding versus trust). The account above may be linked to Figure 1 in the following way.

- Along the vector "Proposition 1", in the "north-east" quadrant, are the cases characterized by *Gemeinschaft* norms and active behavior of the members in monitoring their cooperative: here members exhibit a large amount of social capital in relation to their cooperative and invest efforts to read the annual reports. The Chelmsford case lies farthest to the "north-east" in this quadrant and the CWS case is located closer to the center. The Foodstuffs case is closest the center but still in the "north-eastern" quadrant.
- The vector "Proposition 2", in the "south-west" quadrant, expresses *Gesellschaft* and passivity. The members have a propensity to be free riders. Both agricultural cooperatives are located in the "south-west" quadrant, with Lantmännen farther from the center than and Ravensdown.
- The vector "Proposition 3", in the "north-west" quadrant, stands for a combination of *Gemeinschaft* and passivity: the members do not involve themselves because they trust the leadership. Only two of the five studies – Ravensdown and Lantmännen – report answers in this category, and the answers are few (about 10% of respondents who do not read the reports). As only a minority of the members in Ravensdown and Lantmännen (10%) express trust in the leadership, the assignment of these cooperatives to vector 3 is weak.

Conclusions

On the basis of theoretical reasoning it followed that the two theoretical constructs of free-riding behavior (collective action theory) and trustful behavior (social capital) may be regarded as opposing each other because the first is linked to the *Gesellschaft* paradigm and the second to the *Gemeinschaft* paradigm. Hence, some propositions about members' governance of cooperative organizations were suggested.

All three propositions seem to receive support from the empirical data. Hence both trustful behavior and free-riding behavior exist, though free riding explains low member interest in cooperative governance more often than trust:

1. When a membership is large and heterogeneous the members are little involved in the cooperatives' operations and hence free-riding behavior explains why the members rank low when it comes to governing the cooperatives. When *Gesellschaft* norms rule member control of cooperatives does not function well.
2. Trustful behavior may be found among the members when the membership is small and relatively homogeneous. There is social cohesion implying that *Gemeinschaft* exists, and so the members care about governing their cooperative.
3. Trustful behavior may to some extent exist also within a subset of a membership. Some members may have trust in the cooperative leadership to the extent that they do not care about monitoring the organization.

An overall conclusion is that the concepts of *Gemeinschaft* and *Gesellschaft*, and thereby also the concepts of free-riding behavior and trustful behavior, may be a fruitful avenue for future research about cooperative members' way of acting in relation to their cooperatives.

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