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## **Cooperative Social Capital – Towards a Lifecycle Perspective**

Wendong Deng<sup>1</sup>, George Hendrikse<sup>2</sup>

<sup>1</sup> Rotterdam School of Management, Erasmus University, Telephone: +31-10-4089570, Email: [wdeng@rsm.nl](mailto:wdeng@rsm.nl)

<sup>2</sup> Rotterdam School of Management, Erasmus University, Telephone: +31-10-4088660, Email: [ghendrikse@rsm.nl](mailto:ghendrikse@rsm.nl)



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## Cooperative Social Capital – Towards a Lifecycle Perspective

Wendong Deng and George Hendrikse

### Abstract

This study provides a literature review of social capital in cooperatives. We integrate the social capital concept with cooperative lifecycle theory and describe the change of cooperative social capital along the lifecycle. We propose that cooperatives in different stages of the lifecycle are featured with different social capital levels. Cooperatives are supposed to enjoy a large stock of social capital in the early stages of the lifecycle. However, the level of social capital in cooperatives exhibits a trend of declining along the development of the organization. The decrease of social capital will lead to an imbalance of the social and economic attribute of cooperatives. The cooperative's income rights structure must change accordingly. We argue that it is important for cooperatives to strategically maintain and develop the social capital over time. Otherwise, the comparative advantage of the cooperative form may disappear.

**Keywords:** Social Capital, Cooperatives, Lifecycle

### 1. Introduction

We strive to achieve three objectives in this paper. The first objective is to identify the content of social capital in cooperatives and the benefits resulting from it. To achieve this objective, we adopt Nahapiet and Ghoshal's (1998) three dimensions of internal social capital: structural, cognitive, and relational. From the perspective of system of attributes (Milgrom and Roberts, 1990), these social capital dimensions constitute the social attributes of the cooperative, which must be aligned with the cooperative's economic attributes. We delineate each social capital dimension and discuss how they may generate comparative advantage for cooperative business. Second, this paper integrates diverse ideas and empirical facts that pertain to cooperative social capital with cooperative lifecycle theory. Although social capital is a feature of traditional cooperatives, the level of social capital in a cooperative is by no means static. The horizontal and vertical expansion of cooperatives will change the environment where social capital develops and sustains. Some researchers attribute the failure of some large cooperatives to the declining social capital in the organization (Nilsson, Svendsen and Svendsen, 2012). Based on Cook's (1995) cooperative lifecycle model, we describe the change of social capital along the cooperative lifecycle and its potential impacts on cooperatives' business performance. Our fundamental argument is that the social capital level in a cooperative may decrease along the cooperative lifecycle. The decreasing social capital leads to an imbalance of the social and economic attributes of cooperatives. When this happens, the cooperative's income rights structure must change accordingly. Third and finally,

we argue that it is important that cooperative leaders strategically maintain and develop social capital over time. Otherwise, the comparative advantage of the cooperative form may disappear. We discuss the implications for the management practice in cooperatives. Specifically, we offer some suggestions to sustain and recreate social capital in large and modern cooperatives.

## **2. Social Capital and Cooperatives**

According to Nahapiet and Ghoshal (1998), the internal social capital is composed of three distinct dimensions: structural, cognitive and relational.

### *Structural Dimension*

A cooperative is not only a business firm but also a society with a dense inter-personal network. The structural social capital can bring certain advantages for cooperatives and members. The social network structure of a cooperative creates a platform for information sharing and exchange, which facilitate the interactions and knowledge transfer among the membership. For the individual members, strong ties with similar partners lead to exploitative learning that results in an increase in efficiency and productivity (Levinthal and March, 1994). For the cooperative as a whole, the close connections between members may have significant influence on the execution of organizational activities. Previous research identifies that social networks can help actors to coordinate critical task interdependencies and to overcome the dilemmas of cooperation and collective action (Gulati 1995; Walker et al. 1997; Sparrowe et al. 2001).

### *Cognitive Dimension*

The cognitive social capital benefits cooperatives in several ways. First, the shared vision and goals, and the collectively held values that underlie them, help promote integration and create a sense of shared responsibility and collective action (Coleman 1990). People with shared vision are more willing to enter into cooperation (Tsai and Ghoshal, 1998). In addition, Leana and Pil (2007) argue that the shared goals in a community can mitigate the freeriding problems and reduce the use of formal control mechanisms. Secondly, the cognitive social capital promotes successful coordination by facilitating effective communication and common perceptions among members. Shared language provides members with the ability to communicate more effectively (Boisot, 1995). Better communication increases the level of understanding among members and helps them anticipate the actions of other members. Moreover, high levels of cognitive social capital give employees a common perspective that enables them to perceive and interpret events in similar ways (Boland and Tenkasi, 1995; Nohria, 1992). When a shared vision is present in the network, members have similar perceptions as to how they should interact with one another (Inkpen and Tsang, 2005) and can avoid possible misunderstandings in their communications (Tsai and Ghoshal, 1998). This will lead to the successful coordination of activities and adaptation to changing conditions.

### *Relational Dimension*

Prior research suggests that trust facilitates social and resource exchange, increases communication, and enhances cooperation between individuals (Putnam, 1993; Tsai and Ghoshal, 1998). When individuals trust each other, they are more likely to cooperate and willingly participate in the collective actions (Gulati, 1995). In comparison with investor owned firms, cooperatives are claimed to have greater organizational trust, which exist both among the members and between the members and processor (Shaffer, 1987; Balbach, 1998; Shapira, 1999; Sykuta and Cook, 2001; James and Sykuta, 2005 and 2006). The trust in the cooperative makes the members willingly identify and commit themselves to the organization (Borgen, 2001), be loyal towards their cooperative (James and Sykuta, 2006), and participate in the governance of cooperatives (Österberg and Nilsson, 2009; Barraud-Didier et al., 2012). The members' trust towards their cooperative makes them willingly be directed and controlled by the leadership (Sogaard, 1994) and leads to the more efficient contract between the members and processor (Balbach, 1998).

### *Cooperative as a coherent system*

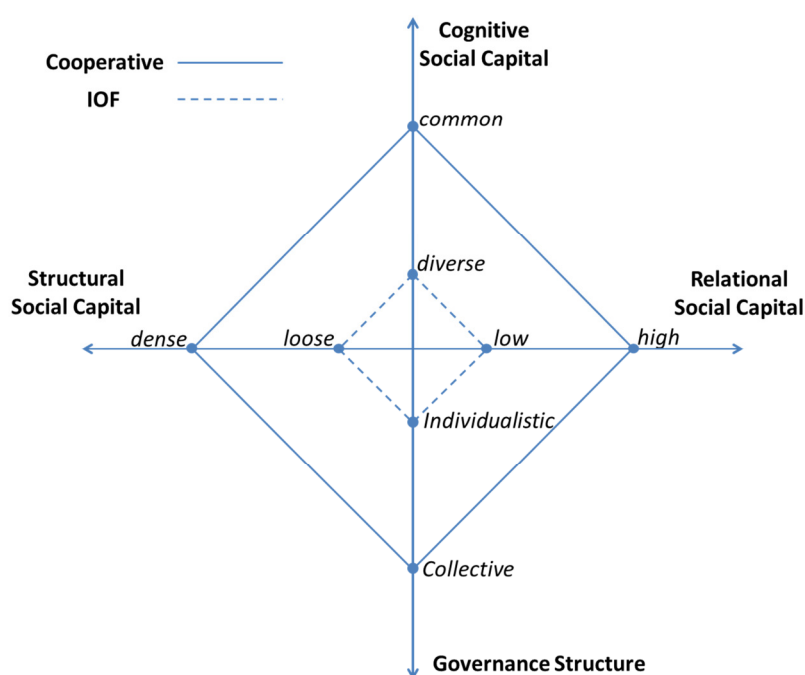


Figure 1: Attributes of a cooperative and an IOF

### **3. Social Capital along the Lifecycle of Cooperatives**

Cook (1995) suggests a five-stage lifecycle model for cooperatives: (1) economic justification and establishment, (2) survival of infant stage, (3) growth and consolidation, whereby problems of so-called vaguely defined property rights appear, (4) struggle against the vaguely defined property rights problems, (5) either exiting, restructuring (including choosing a hybrid model, and involving outside co-owners), or shifting (choosing an individualized cooperative model, including tradable delivery rights). We propose that cooperatives in different stages of the lifecycle are featured with different social capital levels. Cooperatives are supposed to enjoy a large stock of social capital in the early stages of the lifecycle, which forms a coherent

system with the cooperative governance structure. However, the level of social capital in cooperatives exhibits a trend of declining along the development of the organization (Nilsson, Svendsen and Svendsen, 2012). The values of the social attributes indicated in Figure 2.1 gradually change from dense to loose, from common to diverse, and from high to low as the cooperative develops. We examine the ways in which certain organizational changes in cooperatives affect each social capital dimension. In the last stages of the lifecycle, a low social capital level in the cooperative is no longer matched with the economic attributes featured by the collective income rights structure. The mismatch of social capital and governance structure offers an explanation for the cooperatives' common property problems. We present some cases showing how cooperatives responded to the imbalance of social and economic attributes of cooperatives.

#### **4. Management Implications**

Cooperatives worldwide have been faced with the challenges from the trend of globalization and industrialization in the agricultural sector. To respond to the intensified competition and differentiated demands of the market, most cooperatives choose the strategy of horizontal and/or vertical expansion accompanied with the changes in governance structure. As a consequence, cooperatives become large with complex organizational structures. Meanwhile, cooperatives start to adopt the competitive strategies and control mechanisms resembling those used by the investor owned firms (Bijman and Wollni, 2008). Cooperatives nowadays are becoming similar to investor owned firms, and gradually, members consider their relationship with their cooperative purely business-like. However, all these strategies of a cooperative in the new environment are at the cost of its social capital, which happens to be the cooperative's comparative advantage over competing investor owned firms. Therefore, when cooperatives are developing its structures increasing distant from traditional forms, they must develop means to maintain created social capital or even increase it (Ollila, Nilsson and Hess, 2013). The primary mechanisms by which social capital can be fostered in cooperatives reside in each social capital dimension.

#### **5. Conclusions and Further Research**

Given its significant importance, the cooperative social capital concept deserves more future research. We would like to suggest some avenues for further theoretical and empirical work on cooperative social capital. Researchers can further explore the dimensions of social capital to identify the means by which these dimensions affect each other and other important firm outcomes. In addition, each social capital dimension consists of several facets. The nature of how each facet is related with the other facets of the same dimensions and the facets of other dimensions is still not formalized precisely and require further and more detailed investigation. The outcome of this type of research will provide valuable implications for cooperative decision makers to effectively maintain and recreate cooperative social capital and, in turn, sustain cooperatives' comparative advantage.

In this paper, we analyze the internal social capital of cooperatives on the organizational level. However, the external/bridging social capital held by specific individuals may affect the behavior of the individuals and the performance of organizations as well (Burt 1992).

External social capital is often operationalized in research as the connections held by top managers. The research on Chinese cooperatives shows that, the CEO and key members play an important role in their cooperative due to their rich external contacts and social resources (Liang, 2013). This type of social capital is beyond the scope of the present paper and deserves more investigation.

Finally, we focus only on the positive side of social capital so far. The cohesiveness of cooperative society may be harmful for the cooperative development in some respects. For example, Leana and Van Buren (1999) point out that there are typically maintenance costs associated with social capital and that strong interpersonal relationships in organizations might also foster resistance to change and sometimes stifle creativity and hamper innovation. The tradeoff between the positive and negative impacts of the social capital needs to be further evaluated.

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