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BOOK REVIEW

The Market Orientation of Cooperative Organizations: Learning Strategies and Structures for Integrating Cooperative Firm and Members

By *Kyriakos Kyriakopoulos*

Jeffrey S. Royer

This book consists of the author's Ph.D. dissertation at Nyenrode University, where he was employed by the Netherlands Institute for Cooperative Entrepreneurship. The author observes that modern cooperatives are faced with new marketing challenges stemming from advances in biotechnology and information technology, changing consumer preferences, the reorganization of international economic boundaries, and market deregulation. Consequently, he suggests that cooperatives must abandon their traditional production orientation and develop market-oriented strategies. He also believes that cooperatives must adopt new organizational structures to accommodate this shift in orientation and the increasing heterogeneity of their members.

Believing that concepts from cooperative, marketing, and organizational theory can be used to understand how cooperatives can increase their market orientation, the author seeks to develop a conceptual framework that links cooperative organizational characteristics to market orientation and performance. From this conceptual framework, he generates a set of propositions that he tests empirically.

In a review of the literature on cooperatives, the author focuses on the formation, nature, structure, and market performance of cooperative organizations. Although the review is inclusive of several perspectives, including sociological explanations for the existence of cooperatives, most of the concepts discussed are derived from the adaptation of the neoclassical theory of the firm to cooperatives and more recent advances based on transaction cost economics, agency theory, and game theory.

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The Market Orientation of Cooperative Organizations: Learning Strategies and Structures for Integrating Cooperative Firm and Members. By *Kyriakos Kyriakopoulos, Assen, The Netherlands: Van Gorcum, 2000, 168 pages, Dfl. 39.50, paperback.*

The author concludes that the current literature on cooperatives fails to provide a conceptual and empirical framework for linking cooperative organizational characteristics to market orientation and performance. He observes that the market orientation of cooperatives has received little attention and complains that the study of cooperatives generally has been characterized by ideological and normative approaches instead of positive or empirical analyses. In particular, empirical attempts to validate the application of both neoclassical theory and recent developments in transaction cost economics, agency theory, and game theory to cooperatives have been limited. The author argues that efforts to test both approaches have been based on comparing the allocative efficiency of cooperatives to that of other firms, thus failing to support one approach over the other given the empirical evidence is consistent with both. Furthermore, empirical research on cooperatives tends to attribute their performance to assumptions about their behavior rather than testing those assumptions. "Specifically, the organizational arrangements, that each stream imposes on cooperatives, function as postulates that guide interpretation of the results but are not themselves subject to test, and eventually lead to tautology" (p. 18).

The author notes that some recent work has increased our conceptual understanding of cooperatives by recognizing a taxonomy of cooperative models that differ in function and the ownership, control, and benefit allocation mechanisms they employ. However, despite the additional realism these models provide, the author asserts that they are based on weak theoretical foundations and limited empirical evidence. He suggests that empirical validation of these models would require a stronger theoretical basis and systematic data. In short, the current literature on cooperatives fails to provide a conceptual and empirical framework sufficient for analyzing cooperative organizational structure, market orientation, and performance, a shortcoming the author proposes to remedy.

A review of the literature on market orientation and organizational learning follows. The discussion of organizational learning is preceded by a review of the classical theory of choice because alternatives to the assumptions in that model form the basis for the development of the organizational learning approach. Once again, as with his review of cooperative literature, the author does not attempt to provide an exhaustive review, preferring to concentrate on material that contributes to the development of his conceptual framework for analyzing cooperative organizational structure, market orientation, and performance. Although his review of market orientation and organizational learning may be useful to those seeking a guide to that literature, the density of the material makes for difficult reading.

In his development of a conceptual framework for linking cooperative organizational characteristics to market orientation and performance, the author discusses two types of organizational learning. Exploratory learning consists of the development of new routines based on new knowledge whereas exploitative learning consists of building on or replicating existing routines based on previous experience. The author also discusses market responsiveness and adhocratic culture. Market responsiveness concerns the coordination of an organization's resources to create products and services of value to consumers and consists of learning about the market environment and applying that knowledge to planning and implementing market strategies. Adhocratic culture is an organizational culture that emphasizes flexibility, entrepreneurship, and growth and is characterized by risk taking and experimentation.

From this conceptual framework, the author derives a set of formal propositions for empirical testing. These include hypotheses about the effects of proportional ownership, control, and benefit allocation mechanisms and adhocratic culture on exploratory learn-

ing, exploitative learning, and market responsiveness. These propositions also include hypotheses concerning the effects of exploratory learning, exploitative learning, and market responsiveness on performance and innovation. Additional hypotheses focus on how the effects of exploratory and exploitative learning on performance and innovation are influenced by market turbulence.

To test these hypotheses, data were collected from a questionnaire completed by the chief executive officers of fifty-three Dutch food and agribusiness cooperatives characterized as including both traditional and proportional structural features and experiencing a shift toward market-oriented strategies. The questionnaire included questions about cooperative structure as well as marketing and general organizational issues. Existing scales were used or adapted to measure adhocratic culture, market responsiveness, performance, innovativeness, and market turbulence. The author developed original scales to measure exploratory and exploitative learning. Proportional ownership, control, and benefit allocation mechanisms were represented respectively by the presence of individually allocated equity capital, a policy of voting in proportion to patronage, and differentiated pricing and cost-sharing practices.

The coefficients for all of the empirical models were estimated by regression under the assumptions of ordinary least-squares and after checking for multicollinearity. In addition, split-group analysis was used to estimate the influence of market turbulence on the effects of organizational learning on performance and innovation. Under the split-group analysis, the median was used to separate observations into groups of high and low market turbulence.

Although the author touts his findings as "rich," the regression analysis failed to produce many of the expected results. Of the hypothesized relationships, only the effects of proportional ownership and adhocratic culture on exploitative learning and market responsiveness, exploratory learning on innovativeness, exploitative learning on performance, and market turbulence on the relationship between exploitative learning and performance were significant and of the expected signs. The author concludes that the structural characteristics of cooperatives influence their market orientation even though proportional control and benefit allocation mechanisms did not have a significant impact, a surprising and obviously disappointing result. This is a tenuous conclusion, especially when one remembers that the only significant structural variable, proportional ownership, is represented by the mere presence of individually allocated equity capital, a proxy that is not altogether satisfactory.

Other aspects of the empirical analysis are also open to criticism. Although the procedures used to develop and validate the questionnaire seem quite rigorous, the author does not employ formal statistical methods to evaluate the differential effects of proportional structures and adhocratic culture on exploratory and exploitative learning, relying on comparisons of statistically insignificant coefficients to confirm or reject the associated hypotheses. In other instances, the author fails to refrain from interpreting the sign or relative magnitude of an effect despite the insignificance of the coefficient.

The author seeks to illustrate and extend the results of the regression analysis by including a case study in the book. The focus of the case study, the Greenery, is the largest fruit and vegetable company in the Netherlands and is owned by its member-growers through the Dutch Market-Garden Food Cooperative (VTN). The Greenery was formed in the late 1990s by the merger of several cooperative fruit and vegetable auctions that were experiencing declining sales and member loyalty due to their inability to adjust to changing consumer preferences, new competition, and increasing retailer concentration. The new organization was designed to enhance the market orientation of its growers

through forward integration into value-added processing, trading, and distribution activities, the acquisition of managers and staff with marketing expertise, and the centralized coordination of marketing policies. An important element of the organization was the facilitation of market-oriented strategies by the separation of the Greenery from VTN through the formation of an autonomous legal entity.

The author documents the changes in the company's marketing strategies and the cooperative's organizational structure. He argues that the marketing problems of the new organization have been addressed successfully but that important problems remain with respect to the cooperative's structure. Although separation of the marketing company from the cooperative has enhanced the market orientation of the organization, it has also diminished member involvement and control, creating alienation among members. In addition, the company's pricing policies do not adequately account for the diversity of members, resulting in a transfer of income from larger growers. Combined, these factors have resulted in the loss of some members and have adversely affected the willingness of others to invest in the organization.

The case study is interesting and potentially useful. However, it is unclear how the case study illustrates or extends the results of the regression analysis. Moreover, its inclusion in the book seemingly dilutes the author's cry for additional empirical validation and the use of systematic data.

In general, this book covers topics important to the survival and success of the cooperative enterprise. Some readers may be interested in the book's review of the literature on cooperatives. Although much of the information in the review is already contained in several other excellent reviews, this review offers an original perspective and discusses some of the most recent contributions to the literature. In addition, the review of literature on market orientation and organizational learning may be useful to readers seeking an introduction to that material. Other readers may find the case study of value. Unfortunately, poor writing, confusing organization, and numerous, annoying proofreading errors frequently detract from the book's content and obfuscate the author's intent.

The book's principal contribution is its attempt to test propositions linking cooperative organizational characteristics to market orientation and performance. The author's criticisms regarding the relative paucity of empirical validation of existing models for analyzing cooperative behavior are well taken, and his attempt to develop a conceptual and empirical framework is worthy of emulation despite its modest results. Whether this contribution is great enough to justify publication of a book is questionable. A refereed article may have been a more appropriate vehicle for describing and presenting this effort and could have resulted in wider dissemination.