



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

## **Are Cooperatives Hybrid Organizations? An Alternative Viewpoint**

by  
Vladislav Valentinov and Jana Fritzsich\*

### **Abstract**

This paper questions the designation of cooperatives as hybrids of market and hierarchy on the grounds that cooperatives possess more differences from these governance mechanisms than commonalities with them. It is argued that the definition of a governance mechanism's hybridity depends on the definition of the governance continuum, with the conventional market-hierarchy continuum failing to accommodate the specificity of the cooperative organization. Utilizing the logic of the property rights theory of the firm, the paper develops an alternative continuum for cooperative, hierarchical, and market organization. These governance mechanisms are shown to exhibit growing difference in the extensiveness of property rights assigned to the involved contractual parties. This continuum does not imply the hybridity of cooperatives; rather, it locates hierarchy between market and cooperative organization. The empirical validity of the new continuum is confirmed by the results of a survey of members of several Ukrainian rural cooperatives.

- \* The authors are research associates at the Leibniz Institute of Agricultural Development in Central and Eastern Europe, Halle, Germany. The first author was supported by his Marie Curie Incoming International Fellowship of the Sixth Framework Program of the European Community (Contract No. MIF1-CT-2005-514036). The views expressed in this publication are those of the authors only. The European Commission is not liable for any use that may be made of the information contained in this publication

## **Introduction**

In his seminal article on the nature of the firm, Ronald Coase emphasized in 1937 that business activities can be governed by different organizational arrangements whose economic role consists of economizing on transaction cost. Coase's insights have led economists to recognize that the basic economic institutions of market economies are markets and hierarchies, which are primarily defined by their reliance on the price mechanism and authority relation, respectively (Coase, 1937; Williamson, 1985). In recent decades, however, economic research has been increasingly focused on a diverse set of organizational arrangements that can be characterized as hybrids between market and hierarchy (Menard, 2004).

Cooperatives have also been traditionally believed to belong to this set, for two interrelated reasons. First, they are distinctly different from both markets and hierarchies. Second, recognizing markets and hierarchies as opposite modes of the governance continuum necessarily requires categorizing every governance mechanism other than market and hierarchy as a hybrid between the two. The former reason is fairly self-evident. The latter, however, is much less satisfactory in that it defines hybridity as merely being different from market and hierarchy. Apart from its sheer semantic inadequacy, this definition downplays the significance of exploring what hybrid governance mechanisms genuinely have in common with market and hierarchy. The danger involved in this definition is that some governance mechanisms may have so little in common with market and hierarchy that they are more appropriately categorized as 'independent' rather than 'hybrid'. This categorizing, in turn, would require re-defining the standard market-hierarchy continuum, which is based on two, rather than three, independent governance mechanisms.

It is this difficulty that plagues the designation of the cooperative organization as being hybrid. Indeed, the two major studies that addressed the issue of hybridity of cooperative organization remained vague on the precise nature of those characteristics that cooperatives share with market and hierarchy (Menard, 2004; Bonus, 1986). In particular, Bonus (1986) defined the hybridity of cooperatives through their combining the benefits of independent and collective organization. While well wrought in its own right, this argument sheds no light on the issue of similarity between cooperatives, on the one hand, and market and hierarchy on the other. Nor is this issue clarified by identifying hybrids' fundamental regularities, such as resource pooling, contracting, and competing (Menard, 2004), despite the indisputable intrinsic value of knowing these regularities.

At the same time, a closer look at the way the relationships among cooperative members are organized reveals substantial differences between cooperative organization and market and hierarchy. Crucially, inter-member relationships

within a cooperative do not involve buying from and selling to each other, nor do they involve the subordination of some members to others. Rather, cooperative organization is an embodiment of collective action aimed at realizing the common interests of cooperative members. As collective action, cooperation cannot be characterized as a seller-buyer interaction in the market and as an employer-employee interaction in a for-profit firm (even not very hierarchical one). The relationships among cooperative members are thus inconsistent with the use of both price mechanism and authority relation, underlying, respectively, market and hierarchical organization (Valentinov, 2005). Given this inconsistency, it is inappropriate to designate cooperatives as hybrids. Rather, they must be understood as representing an independent governance mechanism which has its own distinct identity that is not reducible to a combination of identities of market and hierarchy.

However, recognizing cooperation as an independent governance mechanism raises the issue of defining the logical relationship between cooperatives, markets, and hierarchies; that is, extending the traditional market-hierarchy continuum to make it accommodate the distinct identity of cooperative organization. Generally, the task of defining a governance continuum boils down to the task of identifying criteria with respect to which different governance mechanisms exhibit systematic variation. Criteria underlying the traditional market-hierarchy continuum, in Williamson's (1991) treatment, include, among others, incentive intensity and degree of reliance on administrative controls. Yet while these criteria permit a clear-cut contrast between market and hierarchy, they are not very helpful in clarifying the logical position of cooperative organization with respect to these governance mechanisms. Consequently, re-defining the market-hierarchy continuum so as to include cooperative organization must be based on other criteria yet to be identified.

Accordingly, this paper will consider the possibility of constructing a governance continuum that explicitly includes the three distinct governance mechanisms of market, hierarchy, and cooperative organization. The added value of this continuum lies in clarifying the logical relationship of cooperatives to markets and hierarchies, and thus filling the conceptual gap created by rejecting the designation of cooperatives as hybrids. Crucially, the continuum must yield economic rationale for the fact that cooperatives embody the collective action of their members, while markets and hierarchies cannot be characterized in these terms. The paper's approach to constructing this continuum will be to build upon the property rights theory of the firm, which has aimed to reveal the rationale behind the property rights structure underlying hierarchical organization in terms of the efficiency of assigning to some contractual parties more extensive property rights than to others (Grossman and Hart, 1986; Hart and Moore, 1990; Hart,

1995). This explanatory framework will be extended to account for market and cooperative organization, thus enabling a continuum representation of all involved governance mechanisms.

The paper will proceed as follows. The next section will summarize the manner in which the property rights theory of the firm explains hierarchical organization. In subsequent sections, this explanation will be extended to fit the cases of market and cooperative organization, thus resulting in an alternative continuum view of these governance mechanisms. Special attention will be paid to issues of institutional choice in this continuum. The real-world relevance of this continuum will be empirically confirmed by the results of a survey among several rural cooperatives in the Kiev Oblast of Ukraine.

### **The property rights theory of hierarchical organizations**

The property rights theory of the firm, mainly developed in the work of Grossman, Hart, and Moore (Grossman and Hart, 1986; Hart and Moore, 1990; Hart, 1995) posits that it is too costly, and therefore impossible, to write comprehensive contracts. Contracts that are actually written are necessarily incomplete, in the sense that they contain gaps, missing provisions, and ambiguities. Ownership matters because it is a source of power in deciding on the uses of assets in situations not foreseen in the contracts. Contractual incompleteness impedes the efficient allocation of resources, and achieving efficiency depends on assigning property rights to contractual parties. Specifically, efficiency is defined in the property rights theory of the firm by the maximization of the net present value of relationship-specific investments, which are likely not to be undertaken if the potential investor fears being 'held up' by its contractual partner in view of contractual incompleteness. This fear, however, can be eliminated if the potential investor receives property rights to its contractual partner's assets, or, more generally speaking, receives more extensive property rights than its partner. Thus, in a situation of contractual incompleteness, the efficient allocation of resources can be ensured if more extensive property rights are assigned to the contractual party that has a greater interest in transacting (i.e., whose potential investment has a higher net present value).

For the present context, this theory can be taken to imply that the hierarchical relationship between contractual parties is defined by these parties' having unequal property rights. The party with more extensive property rights thereby assumes the role of the superordinate, while the other party assumes that of the subordinate. Importantly, the property rights theory of the firm recognizes that hierarchical organization involves a cost in terms of weakening the incentive for the

subordinate party to make its own relationship-specific investments, since the gains from investing will largely accrue to the superordinate party, as the latter has more extensive property rights. This account of hierarchical organization is coined in terms of analyzing the extent to which the distribution of property rights between contractual parties properly reflects the relative importance of these parties' investment decisions, or in other words, the constellation of these parties' interests in transacting. In the next section, the same logic will be utilized to rationalize the existence of market and cooperative organization by allowing for the appropriate variation in these interests.

### **Toward a continuum view of market, hierarchical, and cooperative organization**

The basic case analyzed by the property rights theory of the firm is that of one party having a more important investment decision (i.e., a greater interest in transacting) than the other party (e.g. Hart, 1995). In order to rationalize market and cooperative organization, this case can be modified in two ways. First, given the greater importance of one party's investment decision, the importance of the second party's investment decision may still vary in a certain range, which is delimited by the extreme positions of relative importance and total unimportance. The standard property rights theory of the firm does not explore the implications of this variation, but implicitly assumes the second party's investment decision to be relatively important (though less important than is the case with the first party). Yet, once the second party's investment decision is assumed to be close to unimportant, the rationale for hierarchical organization loses its validity.

Indeed, consider two firms, A and B, the first of which organizes the production of certain products and for this purpose needs to buy inputs from the second one. Assume that these inputs are fungible and firm A can easily find alternative suppliers or substitute these inputs by other, similar inputs. In this case, firm A obviously has much more important investment decisions to make (with respect to the production in question) than firm B. Yet, given the fungibility of the inputs that need to be purchased by firm A, the appropriate governance structure for this purchasing transaction is represented by market rather than hierarchy, as could follow from a superficial application of the logic of the property rights theory of the firm. In fact, the argument of this theory, that the difference in relative importance of the parties' investment decisions leads to the superior efficiency of hierarchical governance, applies only when the inputs are assumed not to be fungible, and firm A is assumed to be unable to easily switch to alternative suppliers (see Hart, 1995: 25–26).

The second way of modifying the situation of one party having a more important investment decision is to assume the equal importance of both parties' investment decisions. Continuing the example of firms A and B, in this case both have equal interests in the corresponding transaction, and therefore will seek equal rights in this transaction's governance. When equal participation in governance is required, neither market nor hierarchical governance are adequate, since they presuppose more decision-making power for firm A than for firm B. Indeed, if firm A purchases inputs from firm B, or acquires firm B itself (i.e., vertically integrates), firm B's managers have little discretion over the organization of production in firm A (as well as the utilization of firm B's outputs). Thus, if the interests of both firms in a particular transaction are essentially the same, both market and hierarchical governance would cause one party's interests to be over-represented at the expense of the other party's interests. This over-representation manifests itself in the unequal distribution of decision-making powers, and consequently, the unequal distribution of any emerging rents. This would clearly reduce the disadvantaged party's motivation to engage in this transaction. The governance mechanism that allows the necessary equal participation in decision-making, and consequently, fair rent sharing, is represented by a cooperative or any other organization based on the uniform assignment of property rights to members.

The extended conceptual framework of the property rights theory of the firm thus permits defining the governance mechanisms of market, hierarchy, and cooperative organization in terms of the difference between the property rights assigned to contractual parties. Cooperative organization is thereby defined in terms of assigning equal property rights. Market and hierarchical organization, in contrast, are based on assigning unequal property rights, with the difference between them lying in the relative extensiveness of property rights assigned to the contractual party whose investment decision is less important. Specifically, these property rights can be designated as 'insignificant' for market organization and 'significant' for hierarchy. Hence, the difference between property rights assigned to contractual parties progressively increases from cooperative organization, through hierarchy, to market organization. This sequence of governance mechanisms thus represents a new governance continuum which is delimited by the polar modes of market and cooperative organization, and includes hierarchy 'in between'.

Crucially, this new governance continuum differs from the standard continuum as developed by Williamson (1991) in that it does not consider market and hierarchy to be the ultimate forms of capitalistic economic organization, with all other organizational arrangements being defined in terms of various combinations of attributes of market and hierarchy. Hence, in the new continuum, cooperatives are not represented as hybrids between them; rather, they are independently

defined as embodiments of the equal assignment of property rights, with market and hierarchy being defined by various degrees of inequality in this assignment. At the same time, the new continuum does allow for the existence of hybrids in the sense of Williamson, i.e., as genuine mixtures between markets and hierarchies. In the new continuum, such genuine hybrids retain their traditional position between market and hierarchy, while the position of cooperatives is substantially different.

### **Implications for institutional choice**

Any conceptualization of the governance continuum must address the issue of institutional choice, i.e., it must clarify the rules that determine which institutional alternatives are optimal in different transactional situations, as well as identify the consequences of not following these rules. In Williamson's framework, the choice among market, hybrids, and hierarchy is determined by matching transactions, which differ in their attributes, with governance mechanisms, which differ in their costs and competencies (1996: 59). Imperfect matches between transactions and governance mechanisms are penalized by high transaction costs resulting from wrongly chosen governance mechanisms. However, the determinants of institutional choice, as developed by Williamson (such as asset specificity), are more appropriate for understanding the choice among market, genuine hybrids, and hierarchy, than among market, hierarchy, and cooperative organization.

Rather, following the logic of the property rights theory of the firm, the problem of institutional choice in the new continuum must lie in ensuring consistency between the relative importance of investment decisions of contractual parties and property rights assigned to them. Specifically, institutional choice in the new continuum can be defined as efficient if the party with a relatively important investment decision has privileged property rights, i.e., is either a buyer of inputs (if they are fungible) or an owner of the firm producing these inputs (if they are specific). The respective choices of cooperative organization would be efficient if the investment decision of both contractual parties is equally important.

This definition of institutional choice efficiency generates a number of hypotheses for empirical research. The key hypothesis is that contractual parties will be satisfied with their property rights assignments if these assignments appropriately reflect the differences in their economic interests. Moreover, the structure of the new governance continuum allows for two possible types of mismatching property rights and economic interests, which will be designated in the present study as the dissipation effect and the crowding-out effect. The dissipation effect occurs when the property rights assigned to a party are more extensive than required for representing this party's interest in transacting. This



party will then dissipate rents from transacting because it will be unable to make important investment decisions that belong to the other party. Empirically, the dissipation effect may take the form of a transaction that is governed in such a way that some parties to the transaction feel they cannot sufficiently enforce their interests. The crowding-out effect occurs when the property rights assigned to a party fall short of the extent of this party's interest in transacting. In this case, the party will not undertake investments that it can potentially make because the constraints on its property rights will prevent it from fully appropriating any resulting gain. Empirically, this effect may manifest itself as a lack of motivation, for some parties to the transaction, to actually undertake that transaction. Any change in the assignment of property rights in the direction of increasing the satisfaction of transactional parties must involve the reduction of these two effects.

To be sure, the occurrence of these effects does not and is not intended to prove that cooperatives are not hybrid organizations. Yet these effects accentuate that the logic of cooperative organization does not consist of combining the attributes of market and hierarchy, but rather of providing a governance mechanism that appropriately reflects the equally important roles of all contractual parties in a given transactional relationship. Both market and hierarchy, which are based on the unequal assignment of property rights, necessarily fail to accommodate the situation when these roles are essentially equal, with this failure being manifested in the abovementioned crowding-out and dissipation effects. Hence, empirical confirmation of these effects, with the accompanying expression of dissatisfaction of the concerned contractual parties, can be regarded as indirect support for the validity of the logical foundations of the proposed continuum of market, hierarchical, and cooperative organization.

The crowding-out and dissipation effects can be identified at each point of the governance continuum that encompasses market, hierarchy, and cooperative organization if these governance mechanisms do not adequately reflect the genuine economic interests of contractual parties. Given the occurrence of the crowding-out effect, the continuum's logic would imply that the economic interests of contractual parties that exhibit this effect would be better served if they had more extensive property rights. In a similar vein, identifying the dissipation effect implies that property rights assigned to contractual parties that dissipate rents from transacting have been more extensive than required by the relative importance of these parties' investment decisions.

Thus, identifying these effects indicates the existence of contractual parties whose relative property rights are out of balance with their relative economic interests. In this case, implications for optimal institutional choice depend on the type of governance mechanism at work in the status-quo. For example, given that a contractual party experiences the crowding-out effect, then optimally it must be

assigned more extensive property rights. This may take the form of a transition from market to hierarchy, or from hierarchy to cooperative organization, since both of these transitions are associated with enhancing the property rights of the less important contractual party in the status-quo. However, this may also take the form of transition from a cooperative to a hierarchical or market organization, thus allowing the concerned party to obtain superior property rights; that is, if the equal assignment of property rights does not mesh with the fact that this party's economic interest in transacting is much greater than that of the other party.

### **Empirical investigation: the case of Ukrainian rural cooperatives**

This section presents the results from empirical investigation into the crowding-out and dissipation effects, which was carried out on a number of Ukrainian rural cooperatives. These cooperatives were created by rural dwellers after 1991 to fill the increasing gap in the provision of services related to maintaining social infrastructure in rural areas (e.g. childcare, medical service, gas and electricity supply, territory cleaning and greening, funeral services, etc). During the socialist period, these services were provided by local large-scale agricultural enterprises which were entrusted and subsidized by the government to do so. Understandably, since the beginning of Ukrainian independence, managers of local agricultural enterprises have been increasingly unwilling and unable to finance and deliver local rural development activities. On the other hand, whereas the agricultural enterprises' role in rural development had to be transferred to local governments, this transfer was hindered by the local governments' shortage of funds and administrative capabilities to adopt new responsibilities. As a result, the quality of rural life and the state of rural infrastructure in Ukraine has, since 1991, been progressively deteriorating (World Bank, 2004).

The failure of both large-scale agricultural enterprises and local governments to provide satisfactory solutions to rural problems has rendered rural dwellers themselves responsible for maintaining their villages' social infrastructure through the creation of rural cooperatives. These cooperatives have not, however, become widespread in Ukraine and most other post-Soviet countries, where agricultural and rural cooperation still carries negative connotations of collective farming associated with the socialist period (Gardner and Lerman, 2006). Yet, it is important to note that these cooperatives did not emerge in the process of the reorganization of former collective or state farms; rather they represent genuine grassroots organizations aiming to maintain social infrastructure on the mutual self-help basis. In Ukraine, these cooperatives appeared in those Oblasts where their creation was supported by local agricultural advisory services (which in turn

were partially supported by foreign donors), most importantly in the Oblasts of Kiev, Odessa, and Donetsk. Whether the active involvement of advisory services caused a certain distortion of the bottom-up nature of these cooperatives may be subject to dispute; yet it is beyond doubt that these cooperatives are not top-down entities, and their creation has not been affected by any administrative pressures.

From the viewpoint of the continuum of market, hierarchical, and cooperative organization, as proposed in the preceding sections, the creation of these cooperatives has been warranted by the fact that most rural dwellers had similar interests in the services these cooperatives provided. Put differently, no rural dweller was substantially more interested in these services than any other. The homogeneity of the dwellers' interests clearly indicates the optimality of cooperative, rather than market or hierarchical organization. Yet this homogeneity did not mean that all dwellers preferred identical patterns of provision of specific services. Given the equal assignment of property rights envisaged by cooperative organization, these minor differences in interests gave rise to the emergence of the crowding-out and dissipation effects, thereby revealing the partial dissatisfaction of some cooperative members with their rural cooperatives. Thus, the operation of these cooperatives provides a chance to test the hypothetical relationships between the satisfaction of contractual parties and their experience with the dissipation and crowding-out effects.

The required data were obtained from a survey of 197 members of 13 rural cooperatives in the Kiev Oblast of Ukraine (which encompassed all members of all cooperatives of this type in this Oblast). The survey was conducted in March 2006 by the Kiev Oblast Agricultural Advisory Service, which was closely involved in the process of creating these cooperatives, and which provided information about their operation. The occurrence of the dissipation effect was measured by asking the cooperative members to characterize the process of making strategic decisions in their cooperatives as being more hierarchical or more consensual. Since this question aims to reveal whether cooperative members feel as if they cannot appropriately enforce their interests, answers to this question indicate the extent to which the property rights of some cooperative members are perceived (by other members) as being in excess of the respective economic interests. The occurrence of the crowding-out effect was measured by asking cooperative members about the extent of their engagement in planning their cooperatives' activities. Since the extent of engagement is determined by one's motivation for doing so, low engagement must indicate the presence of the crowding-out effect. Table 1 shows the questions that were used to measure the crowding-out and dissipation effects in more detail.

**Table 1. Variables, survey questions, and answer categories**

Variable	Survey questions	Categories
Satisfaction of cooperative members	“Characterize the usefulness of your cooperative to you.”	0: My cooperative is not particularly helpful for pursuing my interests. 1: To some extent, my cooperative helps me with pursuing my interests. 2: I can effectively pursue my interests through my cooperative.
Dissipation effect	“Characterize the process of making strategic decisions in your cooperative.”	0: The process is enuinely hierarchical; there is no consensus at all. 1: The process is more hierarchical than consensual. 2: The process is mainly consensual, but sometimes these decisions are made hierarchically. 3: The proccess is genuinely consensual. <i>The lower the category’s number the more pronounced is the dissipation effect.</i>
Crowding-out effect	“Characterize your engagement in your cooperative.”	0: I am never involved in planning the activities of my cooperative. 1: I am seldom involved in planning the activities. 2: From time to time, I am involved in planning the activities. 3: I am actively involved in planning. <i>The lower the category’s number the more pronounced is the crowding-out effect.</i>

In general, descriptive statistics shows that the cooperative members in the sample are satisfied with their cooperatives. The process of decision-making is perceived as consensual and the members see themselves as being involved in planning their cooperatives’ activities. Hence, the dissipation and crowding-out effects do not play an important role. More specifically, the members’ opinion about their cooperatives can be characterized as follows (for a summary, see Table 2):

- Satisfaction: 103 cooperative members indicated that they can effectively pursue their interests through their cooperatives, 85 said that the cooperative helps them to some extent in pursuing their interests, and only 8 found the

cooperative not particularly helpful. One respondent did not answer this question.

- Dissipation effect: 108 respondents characterized the process of decision-making in their cooperatives as genuinely consensual, 79 said that it is mainly consensual, 9 saw it as more hierarchical than consensual, and only 1 perceived it as genuinely hierarchical.

- Crowding-out effect: 114 cooperative members described themselves as actively involved in planning their cooperatives' activities, 67 as being involved from time to time, and 16 as seldom involved. No cooperative member responded that they were never involved in planning these activities.

**Table 2. Descriptive statistics**

<b>Variables with answer categories</b>	<b>Absolute frequencies</b>	<b>Relative frequencies</b>
<i>Members' satisfaction:</i>	<i>N=196</i>	<i>100%</i>
My cooperative is not particularly helpful for pursuing my interests.	8	4.1%
To some extent, my cooperative helps me with pursuing my interests.	85	43.4%
I can effectively pursue my interests through my cooperative.	103	52.6%
<i>Dissipation effect:</i>	<i>N=197</i>	<i>100%</i>
The process is genuinely hierarchical; there is no consensus at all.	1	0.5%
The process is more hierarchical than consensual.	9	4.6%
The process is mainly consensual, but sometimes these decisions are made hierarchically.	79	40.1%
The process is genuinely consensual.	108	54.8%
<i>Crowding-out effect:</i>	<i>N=197</i>	<i>100%</i>
I am never involved in planning the activities of my cooperative.	0	0.0%
I am seldom involved in planning the activities.	16	8.1%
From time to time, I am involved in planning the activities.	67	34.0%
I am actively involved in planning.	114	57.9%

Source: Data from own survey.

The hypothesis that the dissipation and crowding-out effects negatively affect members' satisfaction was tested by correlation analysis. Because the variables are ordinal-scaled, Kendall's tau is used as a correlation measure. Table 3 shows the results.

**Table 3. Statistical results\***

	<b>N</b>	<b>Members' satisfaction</b>	<b>Significance level**</b>
Dissipation effect	196	0.329	0.000
Crowding-out effect	196	0.226	0.001

Remarks: \* Kendall's tau used as correlation measure.

\*\* A significance level of less than 0.05 shows significant correlation between the two variables.

Source: Data from own survey.

The statistical results reveal that the dissipation and crowding-out effects significantly influence members' satisfaction. The positive signs for both correlation coefficients show that the more pronounced both these effects are, the lower is the satisfaction level of the cooperative members. Thus, the empirical results confirm the hypothesized theoretical relationships between the crowding-out effect, the dissipation effect, and member satisfaction.

### **Conclusions**

This paper has argued that designating cooperatives as hybrid organizations must be based on the precise definition of the way they combine the characteristics of market and hierarchy, while in fact it is easier to show that they reject, rather than combine these characteristics. Indeed, extending the property rights theory of the firm to include rationalizing market and cooperative organization has demonstrated that market and hierarchical organization have a crucial commonality that is not shared by cooperatives. Specifically, both market and hierarchy are based on the unequal assignment of property rights in a specific transaction among contractual parties, while cooperative organization is defined by the equality of this assignment. Since the difference between the property rights assigned to contractual parties progressively increases from cooperative organization through hierarchy to market, it can serve as the logical foundation for an alternative representation of the governance continuum. While the standard version of this

continuum is delimited by the polar modes of market and hierarchy, the polar modes of its proposed version are market and cooperative organization, with hierarchy lying ‘in between’.

The broader implication of this argument is that defining the hybridity of governance mechanisms depends on the way the governance continuum is defined, which can be done in a variety of ways. Hence, any interpretation of hybridity must be traced to the underlying definition of the governance continuum. At the same time, exploring the multiple ways that governance mechanisms can be compared to each other and organized in the continuum form is crucially important for understanding the determinants of institutional diversity.

In particular, the proposed version of the governance continuum can explain the emergence of new organizational models of cooperatives (Chaddad and Cook, 2004) as attempts to bring the members’ property rights in line with their changing economic interests; these interests may become increasingly heterogeneous, yet not sufficiently so to justify transferring to hierarchical or market organization. Evidently, the Chaddad and Cook (2004) typology of cooperative organizational models, which stretches from traditional cooperatives to investor-oriented firms, fits well with the proposed continuum, which consecutively encompasses market, hierarchical, and cooperative organization. However, it is difficult to integrate into the standard continuum delimited by market and hierarchy. Generally, identifying new criteria for defining the governance continuum helps to reveal new aspects of the economic rationale for the concerned governance mechanisms and must therefore be an integral part of institutional economics research.

## References

- Bonus, H. (1986). “The Cooperative Association as a Business Enterprise: A Study in the Economics of Transactions”. *Journal of Institutional and Theoretical Economics* 142, 310–399.
- Chaddad, F. and M. Cook (2004). “Understanding New Cooperative Models: An Ownership-Control Rights Typology”. *Review of Agricultural Economics* 26, 348–360.
- Gardner, B., and Z. Lerman (2006). “Agricultural Cooperative Enterprise in the Transition from Socialist Collective Farming”. *Journal of Rural Cooperation* 34, 1–18.
- Grossman, S. and O. Hart (1986). “The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration”. *Journal of Political Economy* 94, 691–719.

- Hart, O. (1995). *Firms, Contracts, and Financial Structure*. Oxford: Clarendon Press.
- Hart, O. and J. Moore (1990). "Property Rights and the Nature of the Firm". *Journal of Political Economy* 98, 1119–1158.
- Menard, C. (2004). "The Economics of Hybrid Organizations". *Journal of Institutional and Theoretical Economics* 160, 1–32.
- Valentinov, V. (2005). "The Organizational Nature of Agricultural Cooperatives: A Perspective from the Farm Problem Theory". *Journal of Rural Cooperation* 33, 139–151.
- Williamson, O. (1991). "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives". *Administrative Science Quarterly* 36, 269–296.
- Williamson, O. (1996). *The Mechanisms of Governance*. Oxford: Oxford University Press.
- World Bank (2004). *Achieving Ukraine's Agricultural Potential*. Washington, D.C.: The World Bank.



