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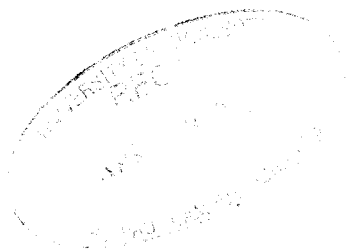
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# JOURNAL OF RURAL COOPERATION



Centre international de recherches sur les communautés coopératives rurales  
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CIRCOM, International Research Centre on Rural Cooperative Communities was established in September 1965 in Paris.

The purpose of the Centre is to provide a framework for investigations and research on problems concerning rural cooperative communities and publication of the results, to coordinate the exchange of information on current research projects and published works, and to encourage the organization of symposia on the problems of cooperative rural communities, as well as the exchange of experts between different countries.

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# Be More Cooperative to Become More Competitive

*by*

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## Abstract

This paper discusses how the current institutional framework and market competition affect the strategies of Latin American agricultural cooperative's businesses. Faced with the trend of organizational isomorphism, it is important to deepen our understanding of the values and principles of cooperatives, incorporating them into competitive strategies, relying on cooperation, trust and loyalty as co-ordinating forces of economic activities and as sources of competitive difference in the agricultural system.

## The new environment

In recent decades, the economic policies implemented by Latin American countries underwent an important change of direction. As part of the implementation of the so-called "structural adjustment policies", which were presented as a response to inflation and the debt crisis in Latin America, government intervention in economic regulations and protection were radically reduced. In addition, trade blocks were created that led to a dramatic decrease in import taxes for the member countries. One clear example is the creation of the Mercosur, which brought about profound changes for many sectors.

A complete transformation in communications and information technology has led to a no less dramatic increase in the flow of information on a global scale. A growing liberalization of markets was promoted, above all in less developed countries, as a strategy for promoting economic growth. In this way countries and markets have increased their interconnection. Consequently competitive environments went through important changes which have forced companies to seek new ways of doing business. This is a process that is being repeated everywhere, maintained by directives from the major international financial institutions, and thus not specific to any particular country or government.

The opening up of the markets brought with it an increase in the range of competitors for the domestic industries. The importation of products at competitive prices has transformed the internal markets. Consequently it is now necessary for

products to reach international quality standards if they are to compete in their own national market. This premise is also valid for agricultural cooperatives, the subject of this study.

In the new standards of competition in the agrifood system the productive processes in the countryside are increasingly similar to industrial ones. Quality is no longer considered optional, and has become a pre-requisite for supplying demand, which now reigns supreme. New and more complex areas of investigation, such as biotechnology and genetic modifications, are now dominating development trends. Robotics, informatics, microelectronics and other technological innovations, which now dominate the course of technological development, are also being applied to food production. Therefore productive as well as industrial research are critical competitive factors and both should be given special consideration and incorporated by any company that wants to survive in the agrifood system.

In addition, because of the development of the agrifood system, the upstream and downstream activities of farm production, which are cooperatives' privileged sphere of action, underwent profound modifications, becoming more complex and specialized. New kinds of related activities capture increasing shares of aggregated costs and the value of final products. Therefore, multiplying activities are to be attended directly or indirectly by cooperatives – through different sort of contracts with other firms. All these require increasing professional management and large investments that may become a challenge too great to overcome for these types of organizations.

On the other hand, relationships between industries and producers and between different industries are increasingly innovative and flexible and yield a large variety of contractual articulations that lead to more efficient agrifood system functioning and increased profit. The substitution rate of raw material is high. The control over information fluxes, in order to respond efficiently to changes in demand, is a crucial factor for competitiveness. All these factors mean that to continue in the market and achieve better results, cooperatives (which have greater supply rigidity) should implement levels of organizational flexibility, investment capacity and operational agility, which for many are not easy to achieve.

Similarly, and due to the transformation of the policies implemented, the State has changed its relationship with the enterprises. Agricultural cooperatives, because of their special integration with farmers and their previously strong relationship with the State, were usually chosen as privileged partners when implementing agricultural policies. Consequently, the changes in the relationship between State and productive sector forced the cooperatives to modify their economic relationships and functioning. Nowadays the capacity of this kind of organization to compete in the market and simultaneously to help its members to better their living conditions is being questioned. Its characteristic as an associative enterprise, generally with

a regional scope and democratically managed by and for its members, turns the cooperative into a special kind of enterprise, with specific characteristics and problems different from other kinds of enterprises. Therefore, we can ask ourselves if they have enough institutional capacity to compete in a highly globalized world.

We consider these organizations as an alternative for farmers to participate in the agrifood system obtaining better economic results to improve their living standards – particularly small and medium family farms without enough production to obtain special benefits in their transactions with farm inputs dealers or with the firms that buy their products. If the cooperatives function well, these farmers can reach the production scale necessary to improve their share in the consumers' price.

On the other hand, farmers learn from the democratic management and social action of the cooperatives and together they succeed in developing projects or influencing policies that affect them. In this sense, we understand cooperatives as economic, social and political organizations, as they have been for decades. Therefore, cooperatives have specific characteristics that require different development strategies from those of businesses with equivalent economic functions.

These organizations have proved in the past to have high market performance and have often led regional development. They still have an important function for the rural sector, although new economic trends and global markets may jeopardize their development possibilities. In a world where transnational corporations are increasingly important, how can cooperatives compete with them? How does the increase in capital needed to compete in this environment affect the strategies and the identity of these organizations?

## **Enterprises and values**

Cooperatives have their specific values that guide their action, which have been the subjects of reflection and agreement by their national and international organizations. There exists a cooperative ethic, approved worldwide, that states that cooperatives are based on the values of mutual help, responsibility, democracy, equity and solidarity. Following the tradition of their founders, members of cooperatives believe in the ethical values of honesty, transparency, social responsibility and care for others (ACI, 1995).

Cooperative values form the spirit that inspires the principles on which the cooperatives' activities are developed. These principles and values are part of cooperatives' identity, and they should guide their strategies and actions. Nevertheless, we must point out that sometimes these values and principles are not fully considered in cooperatives' management, making them meaningless, as well as limiting not only their possibility of attaining their objectives, but also of fulfilling their competitive potential, as we will discuss later.

Cooperative social management has an important role to play, in spite of

its pertinence having been questioned in these times of economic crisis. When attempting to improve their economic performance, they are often under pressure to become as similar as possible to non cooperative enterprises. It seems there is a belief that they should be less cooperative to become more competitive. Legitimate calls for them to become more efficient businesses have increased in recent times. However, the consequent changes can distort cooperatives' identity if they are pushed beyond certain limits, and they can seriously affect the internal dynamic of cooperatives and their relationship with their members. Therefore, we must analyze whether these changes lead cooperatives to completely lose their identity, or whether there are specific development strategies that can make them competitive without altering their identity.

We believe that although changes in management by cooperatives are important, they cannot alone guarantee economic success. Without a simultaneous development of the relationship between cooperatives and their members they cannot make it. Cooperatives' values, education, trust and loyalty are nowadays more important than ever due to the reducing farmers' share of the final total price of the products, moreover if we compare them with other economic sectors. Mainstream economic analysis sometimes emphasizes economic and managerial aspects as if these were alternative or even opposite to social ones, and this causes trouble to cooperatives because they are not exclusively economic enterprises, as mentioned above.

### **The dilemma and the paradox**

As a consequence of the economic processes already mentioned, some profound transformations in cooperative management have taken place. Sometimes they were caused by negative results obtained when trying to respond to the economic changes they underwent, frequently absorbing most of the costs in the primary sector (farmers) caused by successive anti-inflationary economic policies. These changes in cooperative management are not always successful, and they cannot even be fully implemented without the support and understanding of the members. Many cooperatives have experienced ongoing weak economic performances, and simultaneously, the whole rural sector has faced the heavy pressures of productive and competitive re-conversion and had to absorb most of the costs of the economic transformation of Latin American countries.

Therefore, cooperatives have provided training for their managers and frequently contracted consultancy firms (many without previous experience in working with cooperatives) in order to plan the changes needed to be implemented. The question of whether the cooperatives should adopt the same strategies as other non-cooperative enterprises, can then be posed. We can ask ourselves whether techniques developed for profit-seeking enterprises can be applied to these kind of organizations that were created to subordinate capital to people, and with principles of action different from



those of non cooperative businesses. Which values or principles should be considered when designing cooperative strategies to make them competitive while still being cooperatives?

We believe that the answers to these questions are not sufficiently clear and that we can contribute to this discussion by taking recent advances in the social science to analyze cooperatives' development possibilities in the new environment and how can they help farmers improve their lives.

Non-cooperative businesses, especially transnational corporations, have specialized managers and an internal logic based on profit making that guide their strategies. Nevertheless, the agrifood system has changed radically and its internal logic has been altered. From being a supply-oriented system it became a demand-oriented one. In other words, consumer will is the force that determines what, how much, when and how the system should produce. Therefore, markets have become segmented and a new productive logic arises, forcing enterprises to change their way of relating to farmers. They no longer process what farmers sell to them; they now determine what to produce considering consumers' demands.

These relatively new changes in the agrifood system demand a flexible articulation between industry and production leading to new contractual arrangements. Now processing industries select farmers who supply them with products according to their specifications. The industries try to create and maintain stable relationships that allow them to fulfil constantly changing consumer demands. Farmers able to accompany this industrial dynamic are offered better prices or conditions. Therefore, farmer-industry relationship changes and cooperation, loyalty, trust and partnership are sought by the firms as a way of responding more efficiently to demand.

Consequently, the paradox is established: while cooperatives are impelled to favor economic aspects, thus neglecting social management, non cooperative business enterprises improve their relationship with farmers. Hence, a non-congruent isomorphic process becomes evident between cooperative and non cooperative businesses. While non cooperative businesses implement cooperative strategies to become more competitive, cooperatives follow non cooperative strategies, losing their identity, in a non-congruent isomorphic process. Following Bager (1994:43) we can define "congruent isomorphism as the one which homogenizes the population (or subpopulation) of cooperatives and sharpens its profile vis-à-vis non-cooperatives; and non-congruent isomorphism which homogenizes cooperatives with non-cooperatives". Indeed, the existence of an institutional architecture non-congruent with the values that support the logic of the organization can cause a diminishing stability of this organizational form, while cooperatives can guarantee their failure by exclusively following strategies designed for profit-making organizations.

Therefore, it is appropriate to ask how cooperatives could structure their strategies to take advantage of their privileged relationship with their members and their values, in order to respond more effectively to the new economic environment and achieve better economic performance for their members. We believe Economic Sociology allows us a better understanding of this problem.

### **Using economic sociology for analyzing cooperatives**

A profound analysis of the situation, advantages and limitations of cooperatives regarding their competitiveness in the agrifood system cannot limit itself to merely economic aspects; social, cultural, historical and political factors also affect and can turn to be crucial. In this sense, it is important to analyze how trust can be structured in cooperatives' relationship with their members in order to transform it into an effective and efficient tool to increase competitiveness. As we are talking of agroindustrial cooperatives, their members are rural producers usually living in rural communities; social factors have an outstanding importance in defining relationships in these kind of communities, and also in influencing economic decisions.

Therefore, the utility of an analysis like that of Economic Sociology must be acknowledged so as to allow us to understand how these non-exclusively economic aspects and their functioning can affect the cooperatives' competitiveness. So, social relationships, values, institutions and the history of the organization and its members, can help to explain cooperative's functioning and its economic results. Thus, for example, institutional environment is crucial for understanding cooperatives' performance. Laws, rules, customs, habits, values, and social networks define the potential competitiveness of these kinds of organization.

Consequently, efficiency will depend on the kind of organization and its economic, social cultural and/or political influence. This fact is sometimes forgotten when professionalization processes are developed by consultants that approach cooperatives as enterprises, and not as specific organizations with entrepreneurial activities. Therefore, cooperatives, and the organizations specialized in studying or advising them, can develop specific programs for improving their management that could induce other kinds of strategies, routines and methods, not exclusively derived from traditional management models.

Economic Sociology is useful to understand that cooperatives' mission has strategic implications that certainly introduce different options from those of non cooperative businesses. This singularity, when recognized and worked out, will guarantee cooperatives' development. Through intensifying cooperatives' specific characteristics, they can turn to be more competitive without having to relinquish their values. Trust between the cooperative and their members make it easier to be efficient, will give stability to the organization, will work as a way of self-affirmation and reproduction and will encourage cooperation.

Cooperatives are a very specific kind of organization. They build this specificity upon ideology. Their roots in social relations or, in other words, this *embeddedness* is a fundamental characteristic of this kind of organizations. It is also a constituent part of these organizations because they are really founded upon reciprocity relationships. Following Granovetter (1990:98), *embeddedness* means that economic action, its outcomes and institutions are affected by the personal relations between actors and by the general structure of their networks of relationships. Therefore, trust, social relationships, social control (specially, sanctions, norms and values), and common experiences between agents, for example, are an important part of the explanation of the functioning of economic activity, which is specific for every case considered; but, they will not completely eliminate opportunism or *malfasants* (Granovetter, *ibid.*:58-73). According to Granovetter (1992), economic institutions are built by mobilizing resources through social relations, so social relations between and within firms can explain economic order.

Economic relationships between actors are embedded in social networks and they also help to explain the economic functioning and its order. These networks, based on social relationships, drive forward economic cooperation, therefore allowing the structuring of competitive strategies that can have potentially better results than the ones based exclusively on economic considerations. Thus, the base of an organization of production can be discerned that can answer competitively and with flexibility to market segmentation and consumer wishes.

Nevertheless, it must be recognized that the social environment can allow non cooperative and opportunistic attitudes that can negatively affect the social bases of this kind of organizations. Therefore, a tendency can be detected, also influenced by the professionalization of the management of cooperatives: institutional environment provokes non-congruent isomorphism. In other words, cooperatives are compelled by institutional pressures to become more like non cooperative businesses, progressively losing their identity and special characteristics that define them as cooperatives.

Thus, when tempting to better their competitiveness by assimilating routines or even strategies of successful non cooperative businesses, cooperatives take the risk of losing their identity. This would make them miss their objective for two reasons: 1) they would lose when compared *vis-à-vis* non cooperative businesses that usually have lower administrative costs, quicker decision-making processes, and are less exigent with the producers (the compromise required is smaller); 2) they would lose when evaluated as cooperative enterprises by their members: they would certainly not attain the expected results because of having abandoned the socio-political aspects of their relationships.

Using another framework (Beck *et al.*, 1995), it can be added that under a *reflexive* process, cooperatives would fail to meet their members' expectations, be rejected and asked to act as cooperatives to be recognized as such. Having chosen

strategies similar to those of non cooperative businesses, and having lost their specific characteristics, under a reflexive analysis they would be abandoned.

## **Cooperation and trust as source of competitiveness**

It is argued that cooperatives have more chances to survive in the new agrifood scenario and become successful by strengthening their intrinsic characteristics as socio-economic-political enterprises. Their competitiveness depends on their identity preservation. The importance of institutions, also in the form of political rules of society, should make the cooperatives act also in the political sphere, individually or through their federations, in order to preserve a non hostile institutional environment that would allow them to function without undermining their organizational bases. Furthermore, their strategies for being competitive and efficient must be rooted in their relationship with their members.

When observed through the axes of cooperation and trust, the possibilities of success for cooperatives are the best. This applies at two levels: 1) they offer better possibilities when trying to establish networks between producers to obtain increasing quality for products and to better demand responses; 2) they open opportunities for competitively articulating cooperatives nationally or internationally – a less discussed aspect in spite of its interesting potentiality in a global world. Cooperative networks would expand the scope of action from local/national to international markets.

In this sense, it is worth mentioning Hodgson's opinion (1988:210):

...A degree of trust is essential for the firm to function at all... If trust and cooperation are functional to the efficiency of the firm, then a form of organization or regime in which they were promoted could well be superior in terms of performance. Whilst all firms embody trust and loyalty in some measure, firms which promote these attributes to a greater degree are more likely to be efficient. Thus, for example, the extent to which more participatory forms of organization provide evidence of higher productivity (see Hodgson, 1984; Jones and Svejnar, 1982; ...) suggests that to some extent the performance and efficiency of the firm is positively correlated with the level of cooperation and trust between members.

This author goes further and declares that when firms promote loyalty and trust, they induce people to act accordingly. Without this ability to generate more cohesive and less atomistic behavior, firms will not be able to function at all. The key to understand the nature of the firm therefore would be its ability to mould the human preferences and actions in order to engender a higher degree of loyalty and trust. These relationships would be essential for technological innovation and growing,

especially in the long run. Following Hodgson, a firm will have no long-term future if it is ever ruled by the short-term vision of its accountants (*ibid.*:211-213). It is clear that, accordingly to this vision, organizations as cooperatives would have good opportunities of being efficient if they were well-ruled. Their main characteristics would give them excellent opportunities to increase their competitiveness.

According to Powell and Smith-Doerr (1994:385):

Trust and other forms of social capital are particularly interesting because they are moral resources (Hirschman, 1984) that operate in a fundamentally different manner than physical capital. The supply of trust increases rather than decreases with use; indeed, trust can become depleted if not used. . . This implies that once trust is operable, it may prove durable.

However, it is worth remembering that trust does not imply blind loyalty. For these authors, cooperation although based on trust, implies to be prepared to run risks and to become vulnerable; it implies to create governance structures that allow constantly monitoring and consulting. And, as Powell (1990) reminds us, monitoring is both easier and more natural, and largely more effective, when done by peers rather than superiors. Therefore, cooperative assemblies have the potentiality of transforming themselves into the needed governance structures. They should be re-structured to function in a way that allows cooperatives to take advantage of the cooperative values putting them into action.

Consequently, we can think of agricultural cooperatives as networks of rural enterprises – a network of cooperative producers – where mutual knowledge and social and neighboring relationships help to develop trust while jointly attaining their objectives through the cooperative enterprise. Hence, monitoring will be constantly and reciprocally done by everyone involved.

In this regard, Sabel (1993) has observed that monitoring not only reduces the possibility of duplicity, it serves the more important function of routinizing contacts between agents that help to build trust, minimize errors and misunderstandings and allows for improvements to be made. Taken together, these arguments suggest that networks of collaboration show how consensus emerges as a by-product of success rather than a precondition for it (Powell and Smith-Doerr; 1994:385).

Market competition in the agrifood system imposes on cooperatives enormous challenges. As we have seen, the values that give them their identity are seen by Economic Sociology as sources of competitiveness for firms, or even for countries, while trust, cooperation and loyalty are identified as crucial for it. Therefore, cooperatives would have an intrinsic competitive development strategy. Hence, emphasizing their values when selecting their strategies and becoming more cooperative would turn them into more competitive businesses.

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