

# The Evolution of the Cooperative Life Cycle:

Theory?  
Framework?  
Diagnostic Tool?

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# Observation One

- Cooperatives are considered to have inherently a high degree of ownership costs.
- If ownership costs (agency, collective decision making, and risk bearing) are high relative to rivals, the organizational form will disappear

# Observation Two

- ...Yet, in the advanced agricultural countries, agricultural cooperatives have a tendency to regenerate

# Basic Research Questions

- Why do we see the regeneration of agricultural cooperatives?
- Will our results be generalizable?

# Over Time

- Over a period of 20 years and more than 400 workshops, 30,000 discussions, and 2000 surveys, the basic question has evolved from:
  - Theoretical query
  - Conceptual framework
  - Emerging diagnostic tool

# A Fact

- Cooperatives justify their initial existence as a reaction to high market contracting costs.

# A Second Fact

- A cooperative member primarily benefits from transacting with the cooperative and only secondarily from investing in the cooperative

# A Third Fact

- Institutional environment constrains cooperatives to a globally accepted set of organizational principles
  - Democratic control
  - Benefits distributed proportional to patronage
  - Limited return on capital

# Organizational Design Requirements

- These organizational design requirements foster the creation of the possibilities of multiple objective functions and lead to a set of vaguely defined property rights.

# Vaguely Defined Property Rights

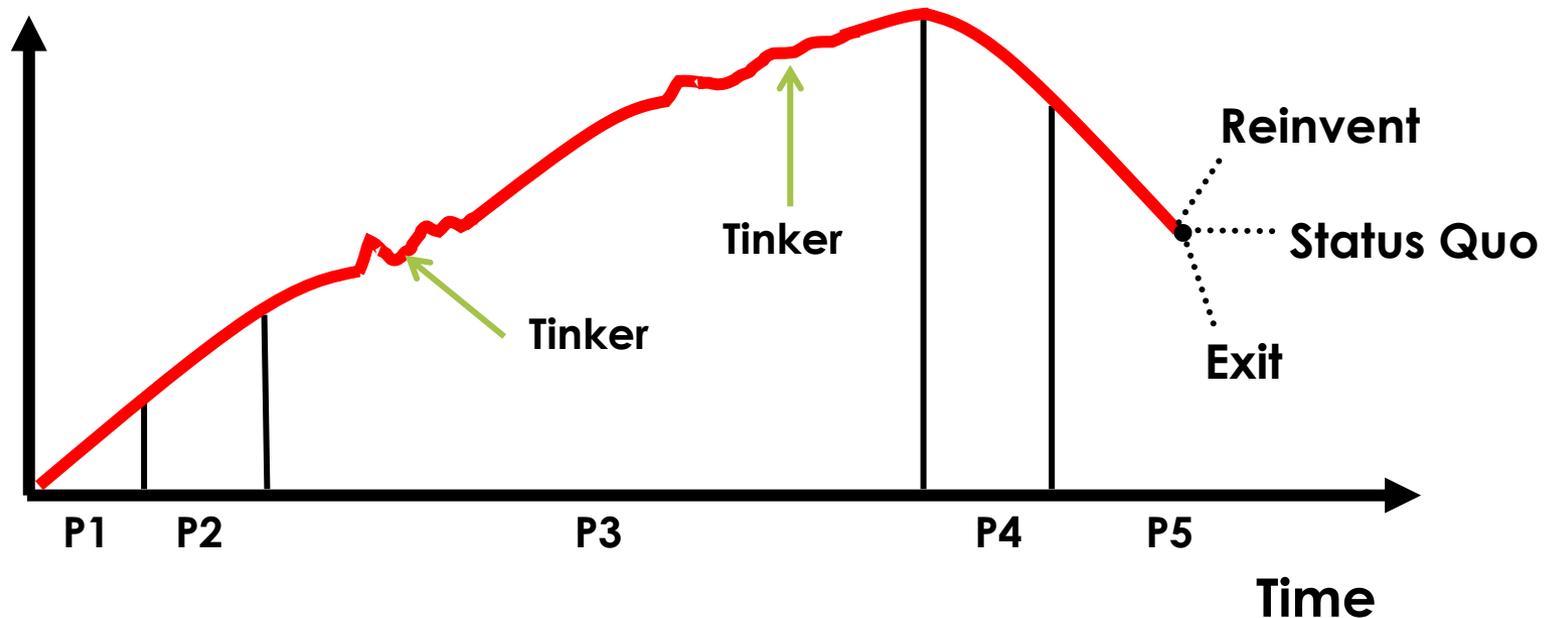
- Vaguely defined property rights lead to FACTIONS and FRICTIONS. These can be grouped into two types of ownership costs

# Ownership Costs

- Investment Constraint Costs
  - Internal free riding
  - Investment horizon costs
  - Portfolio costs
- Control Constraint Costs
  - Collective decision making costs
  - Agency costs
  - Influence costs

# Cooperative Lifecycle: Current

## Health of Cooperative



Phase 1 = Justification

Phase 2 = Organizational Design

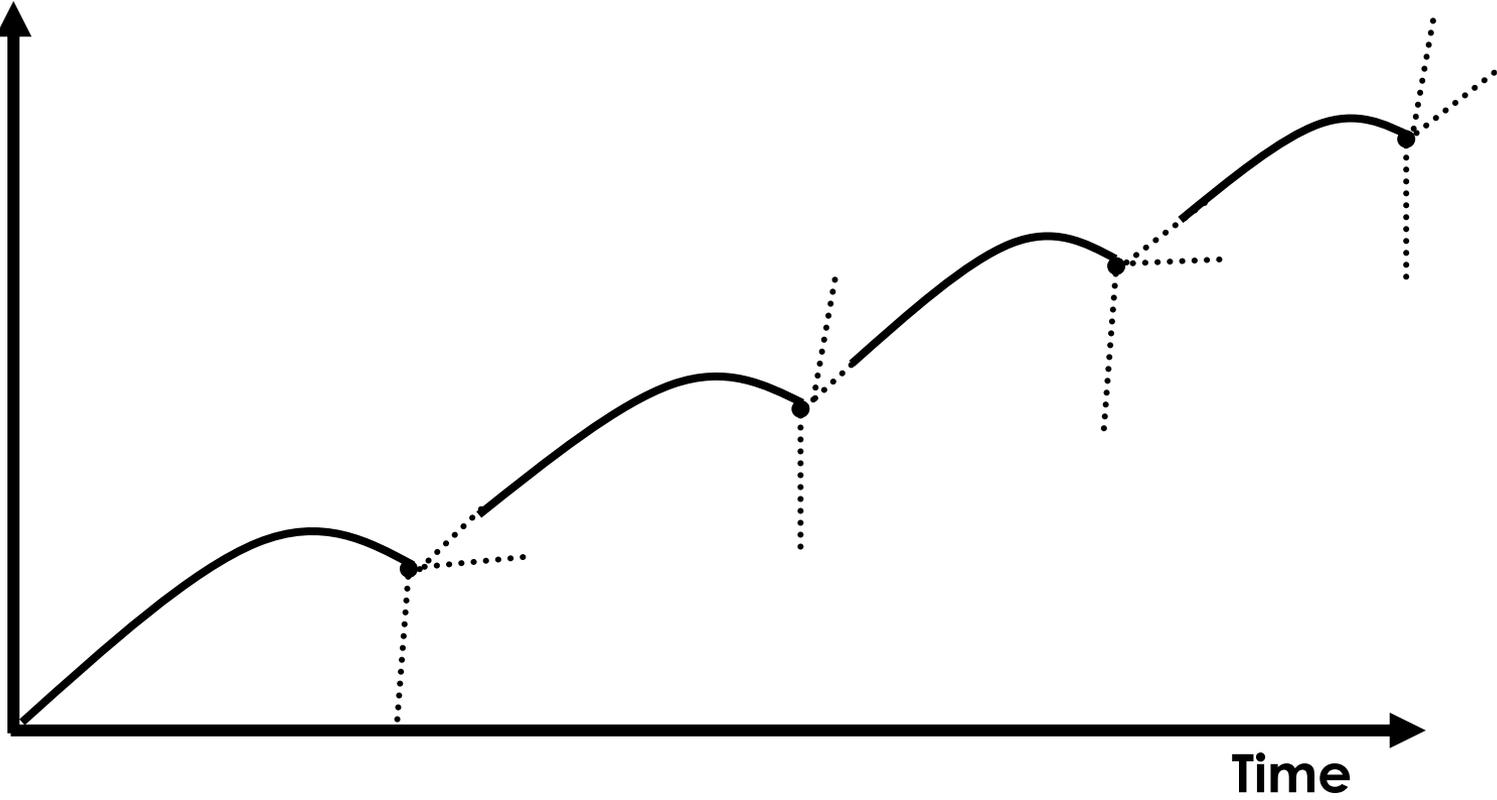
Phase 3 = Growth-Glory-Heterogeneity

Phase 4 = Recognition and Introspection

Phase 5 = Choice

# Cooperative Lifecycle: Regeneration

Health of Cooperative



How leaders of producer  
owned organizations solve  
these frictions is the subject  
of Prof. Iliopoulos'  
comments

# Addressing Organizational Costs in Cooperatives

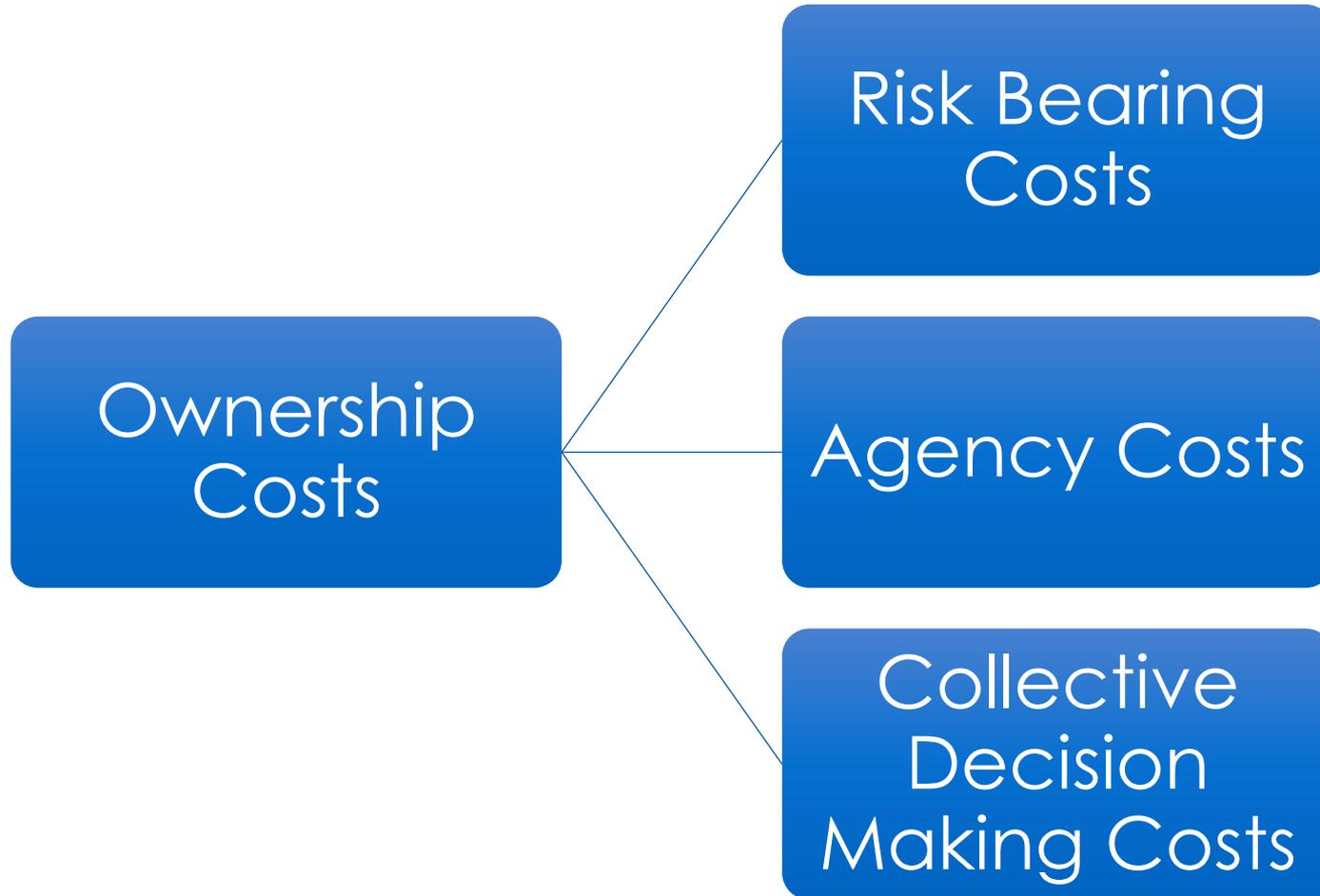
# Organizational costs

- Made up of:
  - Market contracting costs
  - Ownership costs

# Market Contracting Costs

- Simple market power
- Ex post market power (“Lock-In”)
- Risks of long-term contracting
- Asymmetric information
- Strategic bargaining
- Communication of patron preferences
- Compromising among diverse patron preferences
- Alienation

# Ownership Costs in Agricultural Cooperatives



# Risk Bearing Costs

- Free Rider
  - Members/Nonmembers use resource for individual benefit – Property rights not sufficiently defined or enforced to ensure members/nonmembers bear full costs and/or receive full benefits
- Horizon
  - Member' s residual claim on the net income generated by an asset is shorter than productive life of that asset
- Portfolio
  - Members prevented from adjusting their cooperative asset portfolio to match personal risk preferences

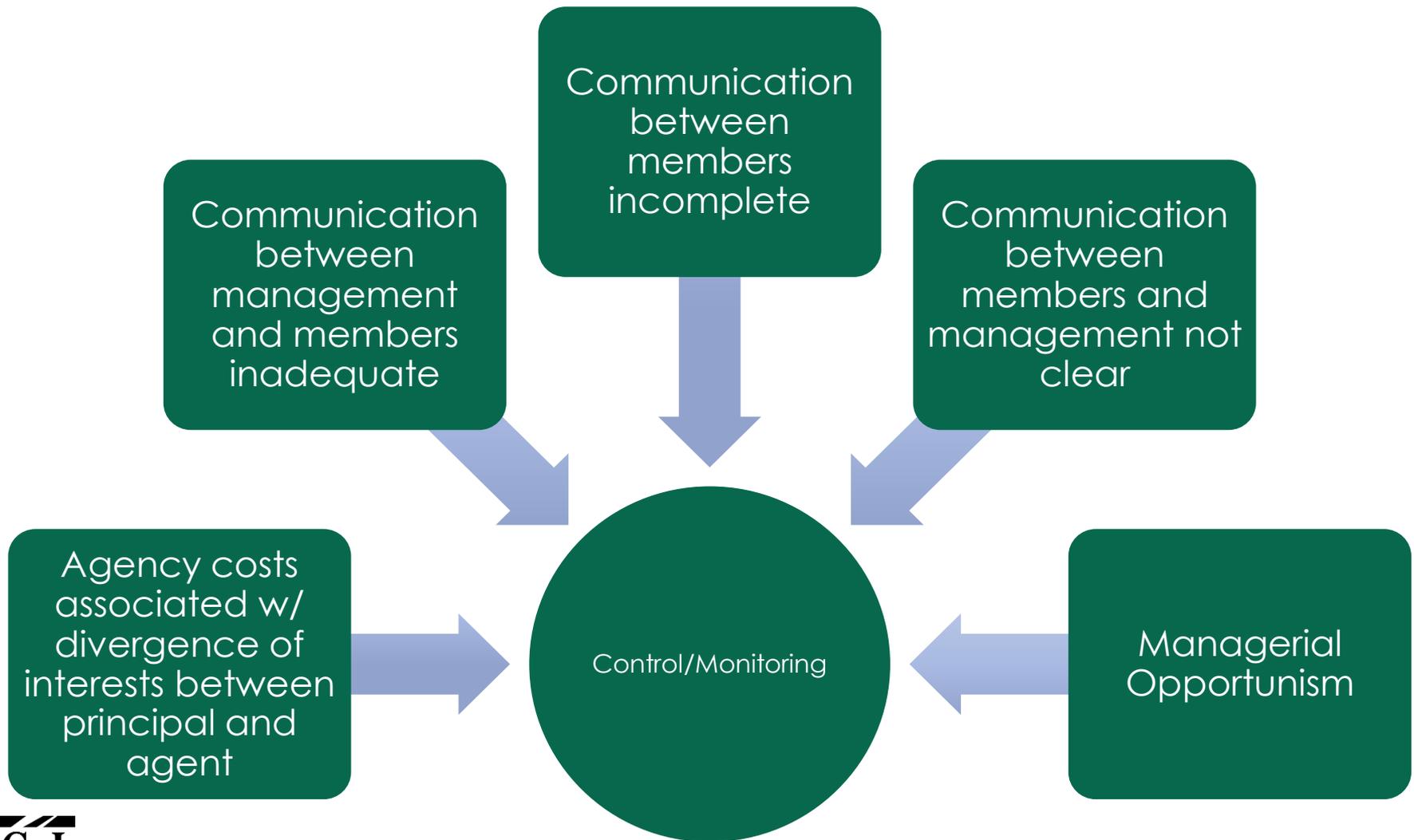
# Why do internal conflicts emerge? Residual Claim $\neq$ Residual Control



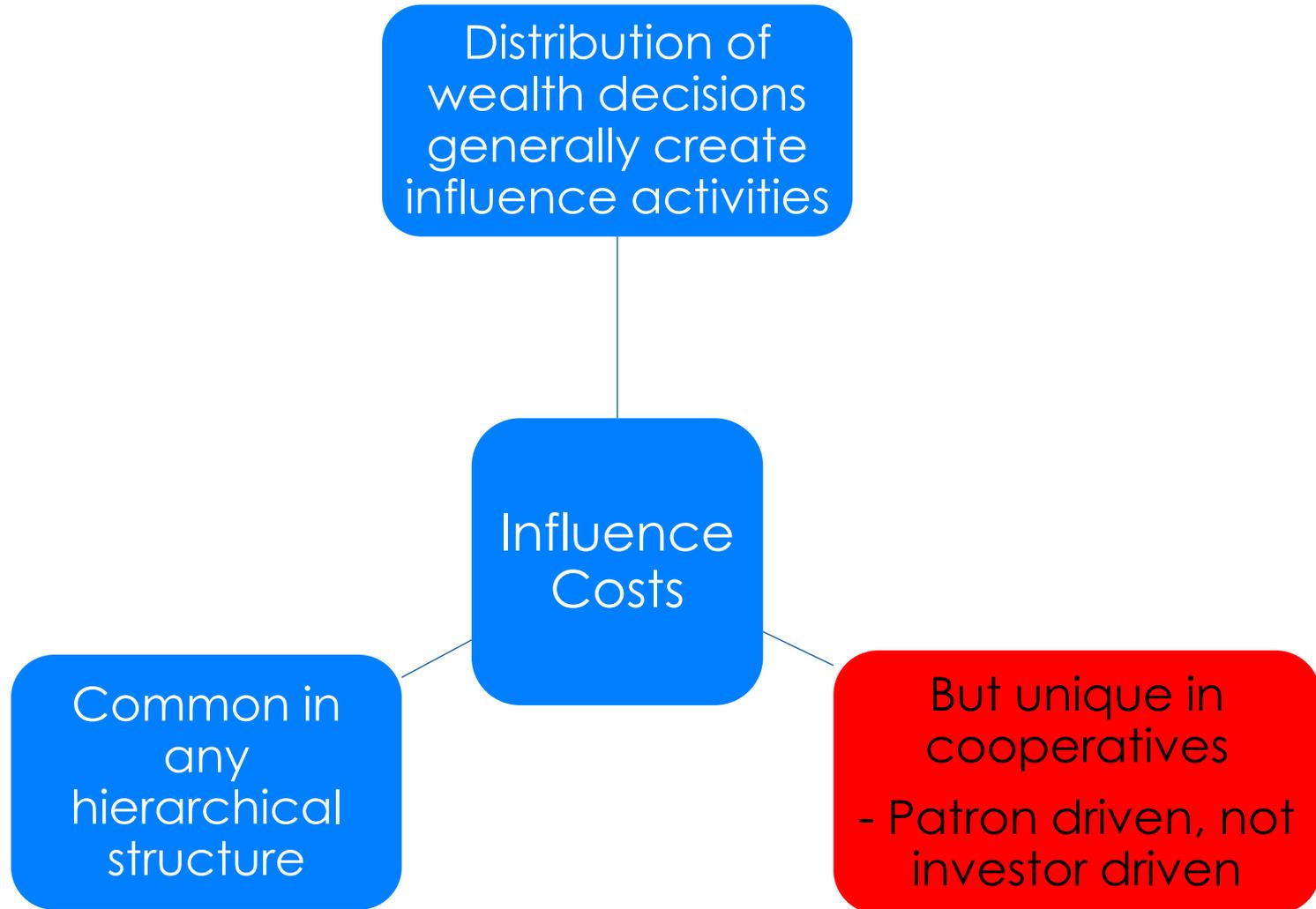
- Free Rider
- Horizon
- Portfolio

- Agency Costs
- Influence Costs
- Collective Decision Making Costs

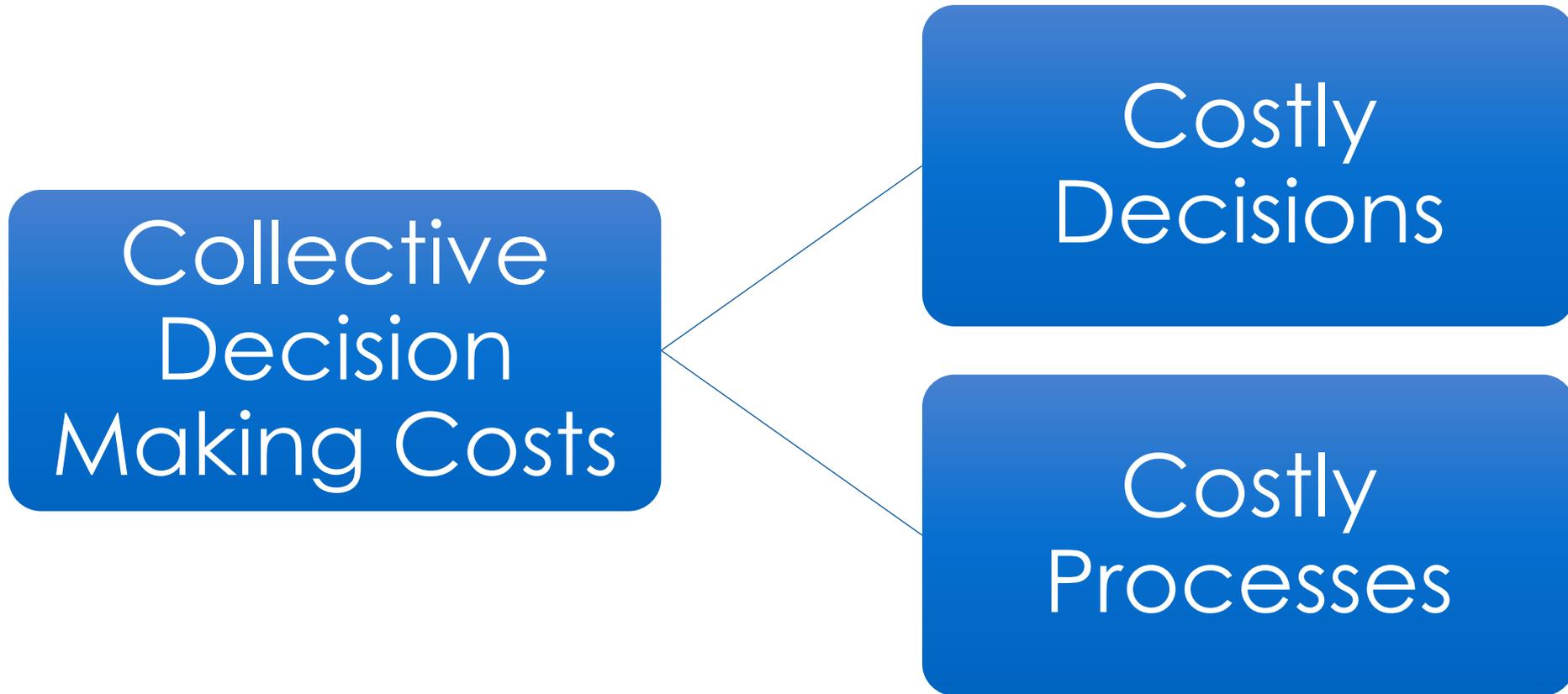
# Agency Costs



# Influence Costs



# Collective Decision Making Costs



# Ownership Costs: Generic Solutions



# Examples of Solutions (1)

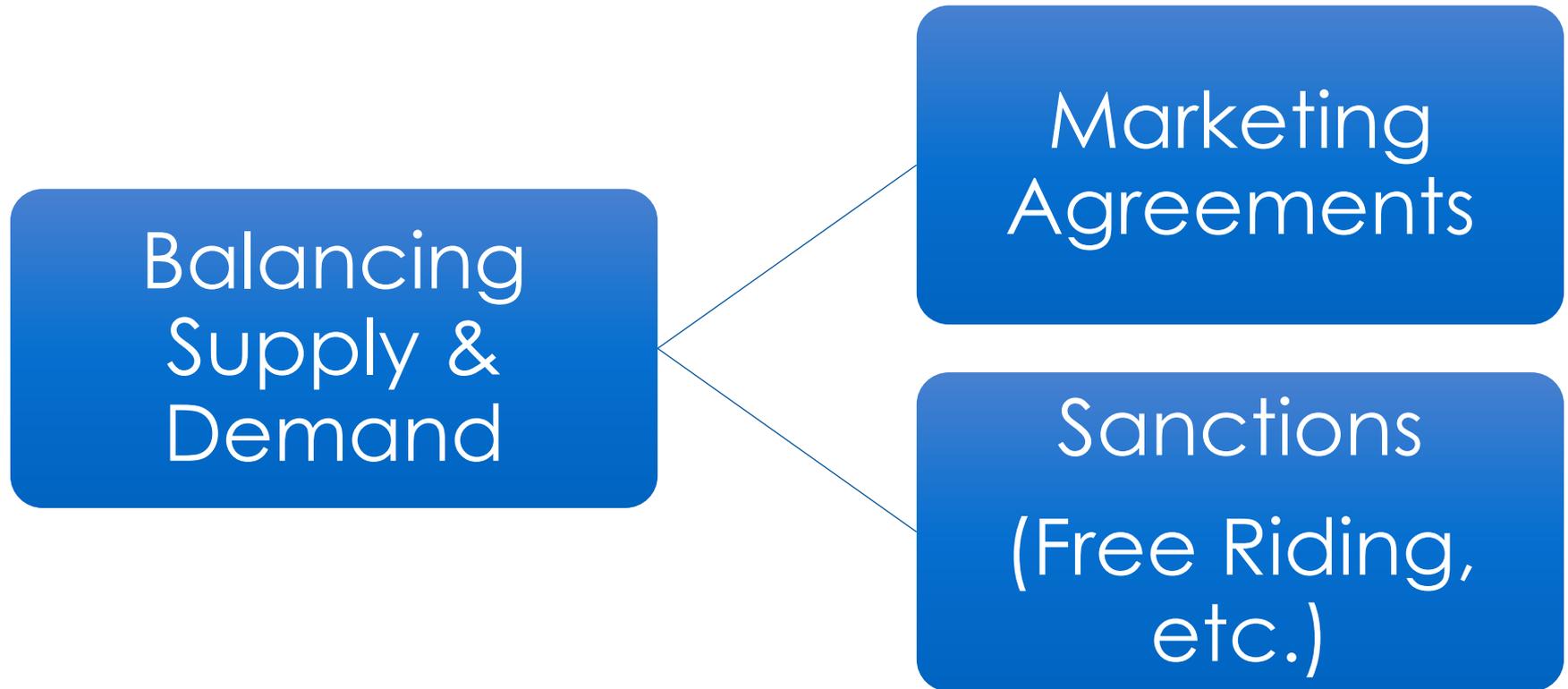
Current User  
Alignment

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graph LR; A[Current User Alignment] --- B[Separate Pools]; A --- C[Capital Contribution in Proportion to Current Use];
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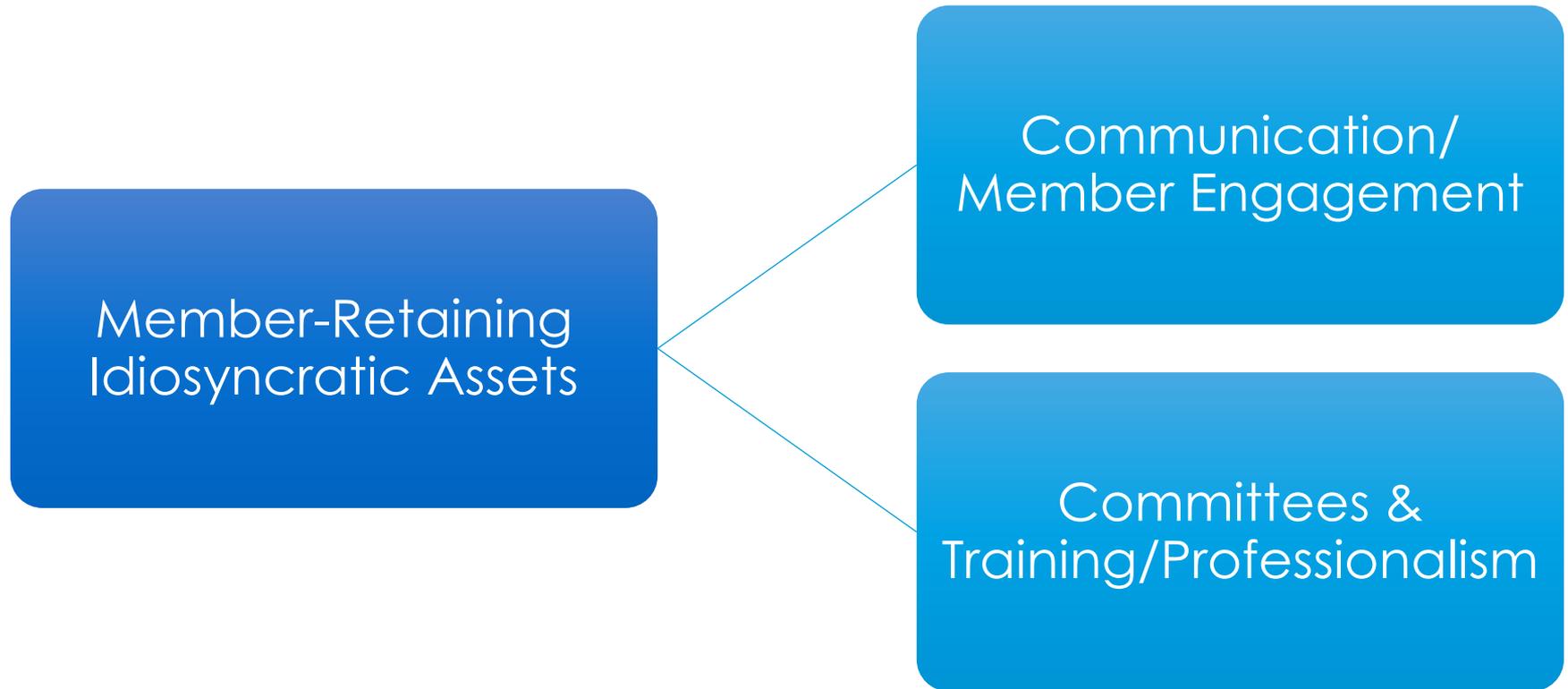
Separate Pools

Capital  
Contribution in  
Proportion to  
Current Use

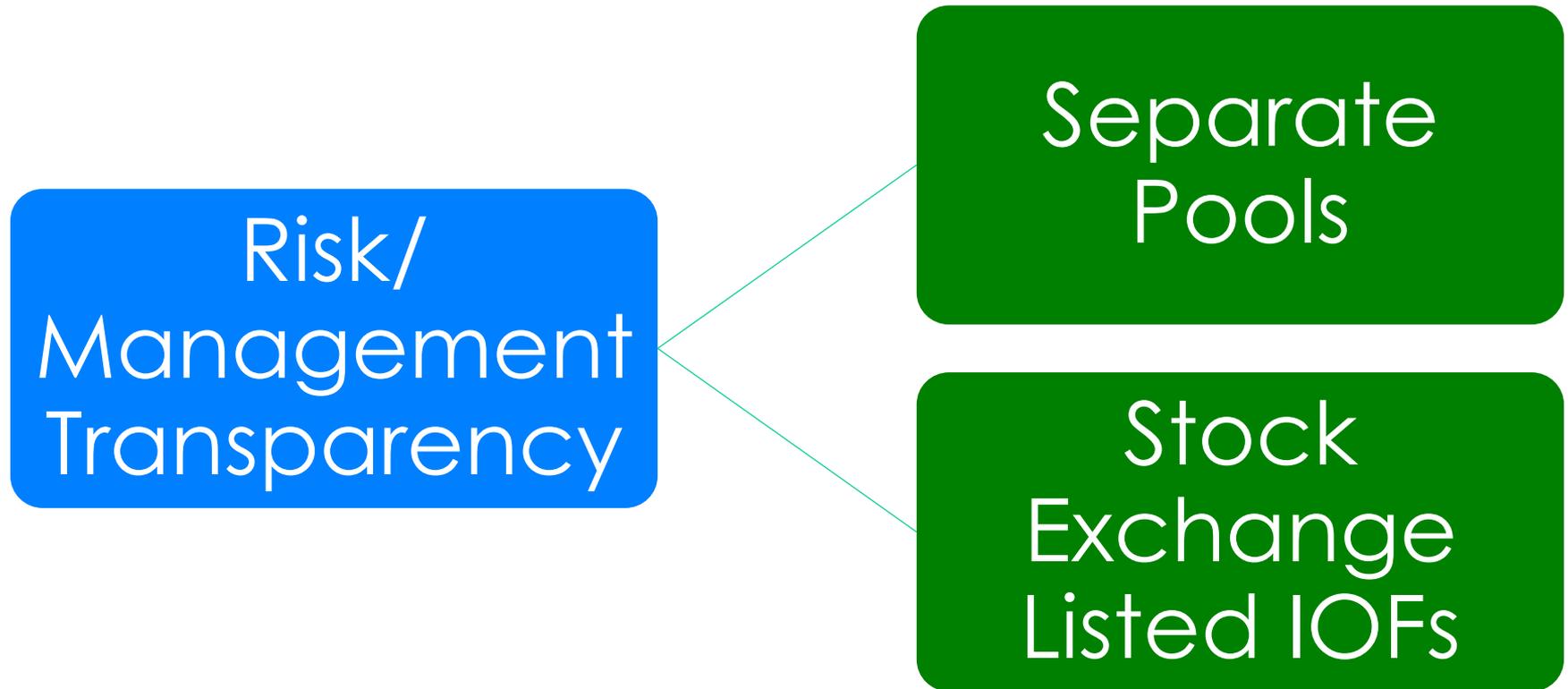
# Examples of Solutions (2)



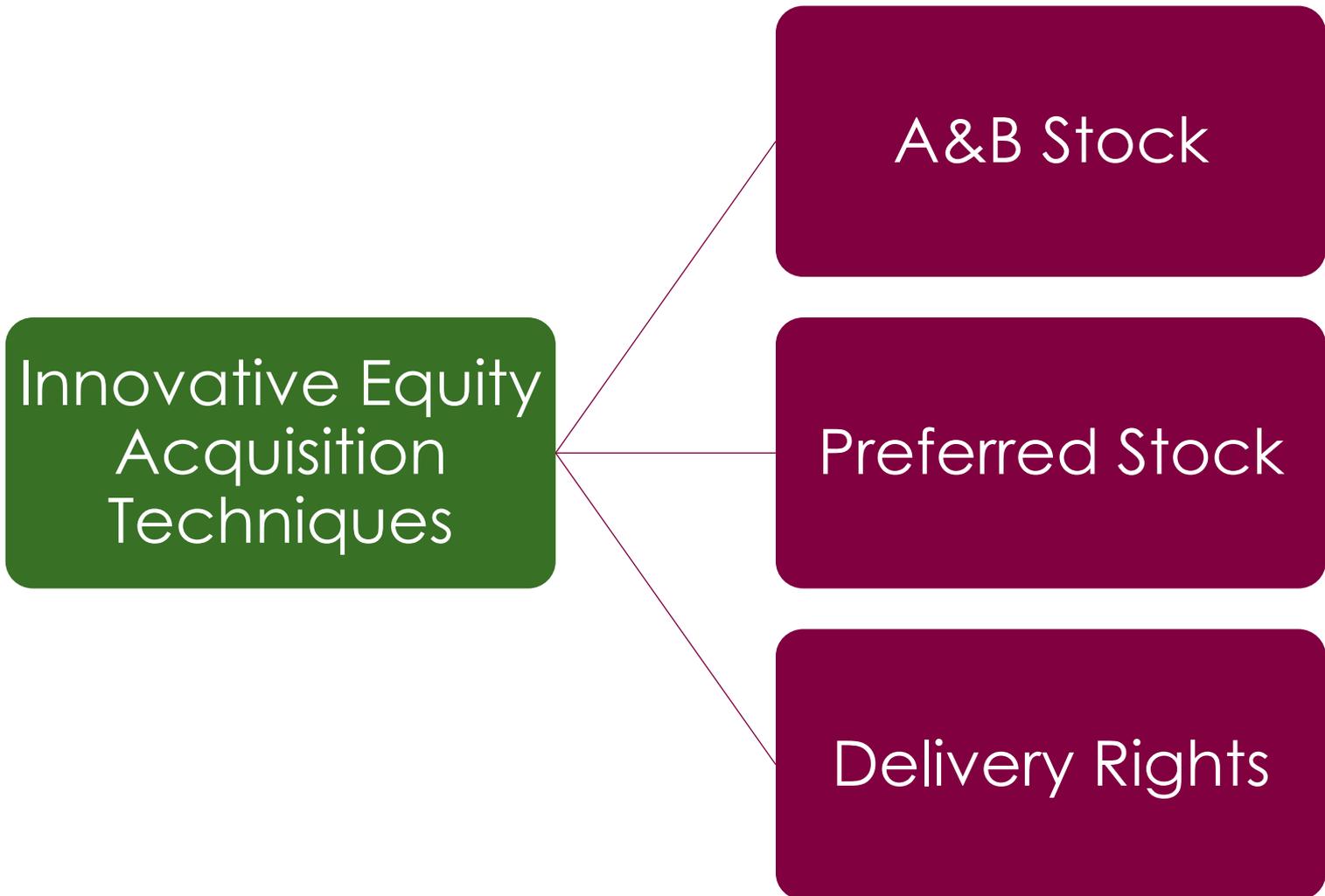
# Examples of Solutions (3)



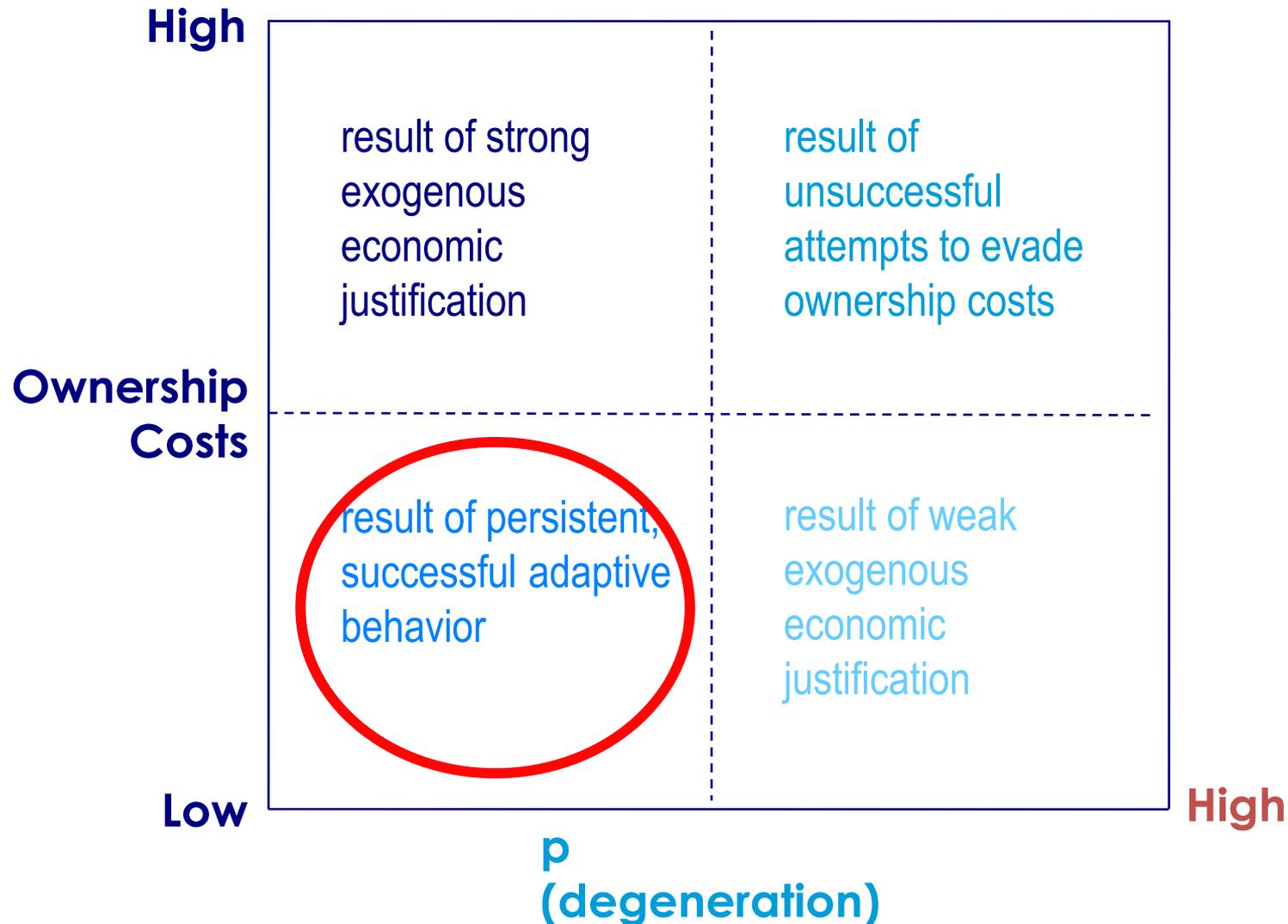
# Examples of Solutions (4)



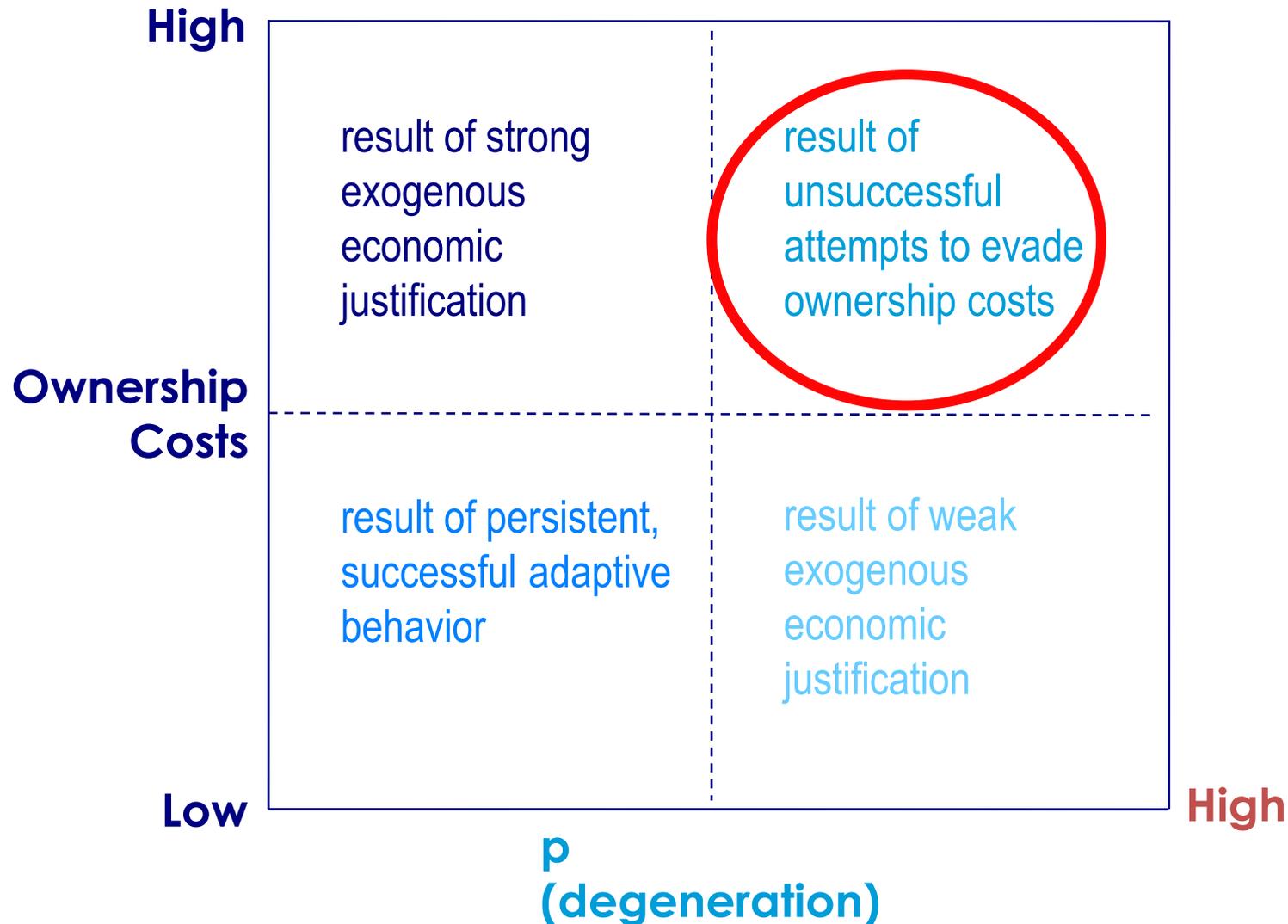
# Examples of Solutions (5)



# Ownership Costs in Relation to the Degenerative Hypothesis

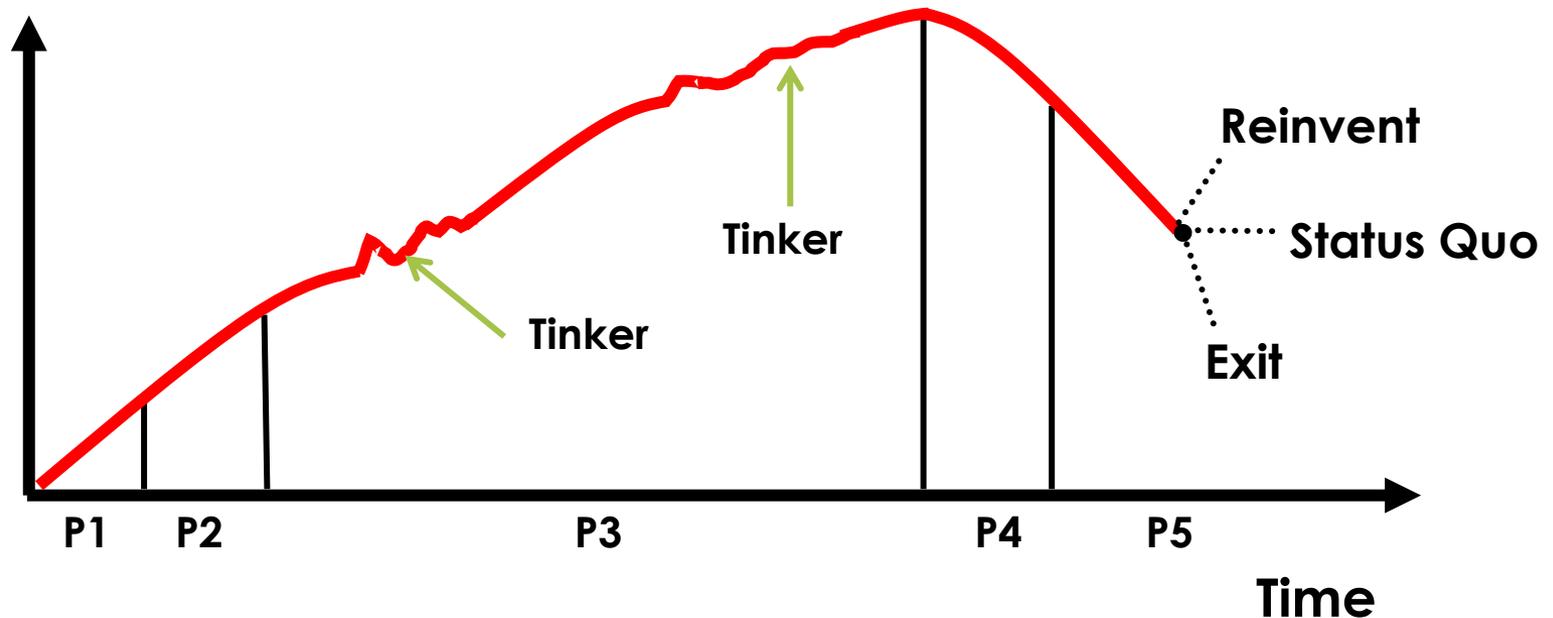


# Ownership Costs in Relation to the Degenerative Hypothesis



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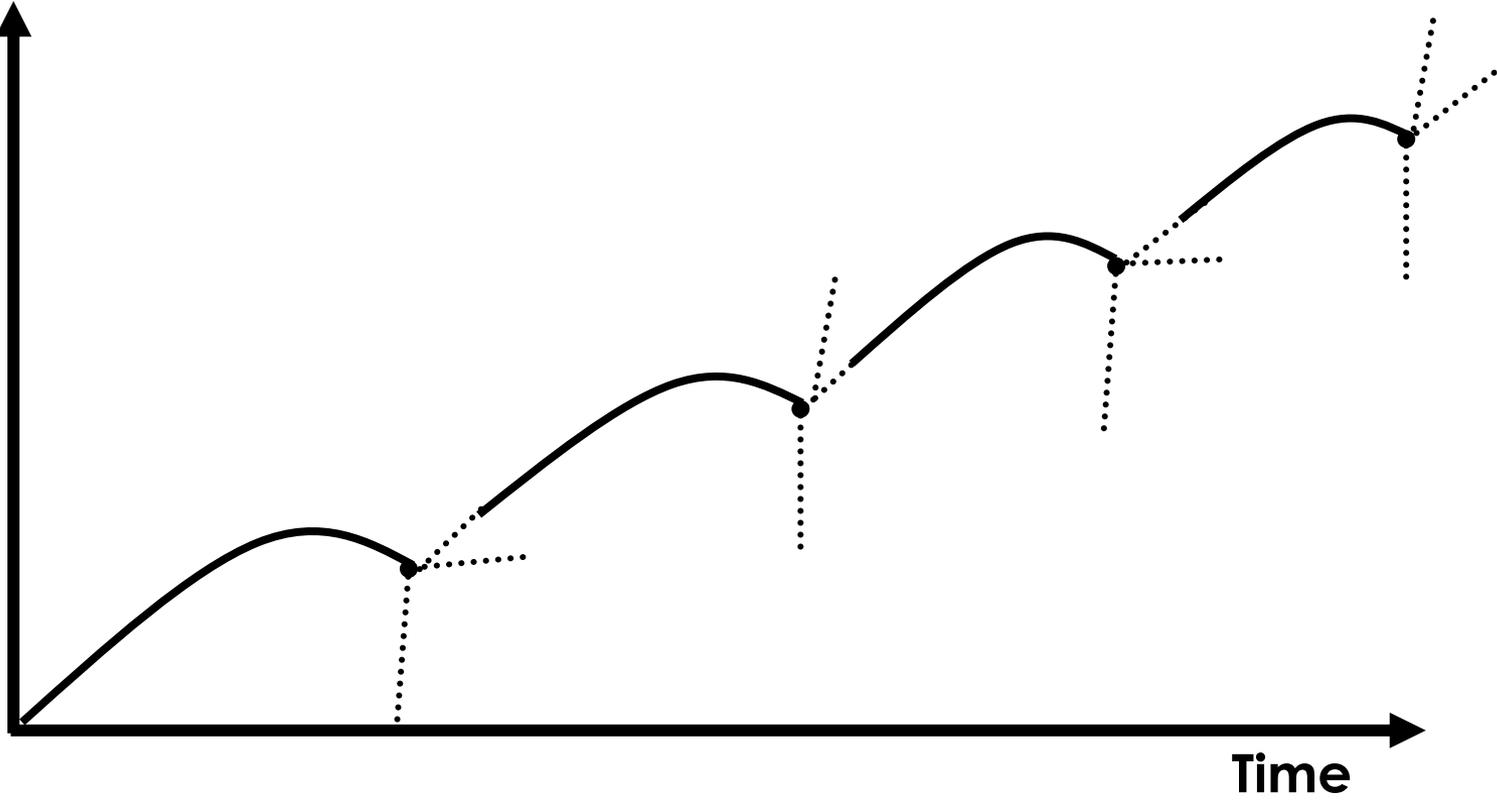
Phase 3 = Growth-Glory-Heterogeneity

Phase 4 = Recognition and Introspection

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# Cooperative Lifecycle: Regeneration

Health of Cooperative



**Thank You!**

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