



# Cooperatives - managing cost of pricing and cost of ownership dilemmas

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## My Assignment

- How are coops important for WINS?
- What is a coop and what are the main problems coops deal with?
- What concepts and analytical frameworks do we use for the analysis of coops?
- Coops within SETS?
- What could the community that has assembled around the analytical framework contribute to WINS?

# 1. How are coops important for SETS-Research?

- Globally: Rural areas and the importance of
  - collective **ownership** and governance of extraction
  - collective **service (at cost)** organization and
  - collective **specialization/integration/market access**
- Coops (Farmers` Organizations) in **Agricultural/Institutional/Development-Economics,**
- ....else
- Understanding coop emergence and changes:
  - = how resource use is governed and changes
  - = understanding rural development
  - = agri-food system changes
- Future relevance?

# Why is the study of cooperatives relevant?

1. Agriculture, fisheries and forestry as textbook examples of “incompleteness-problems” with knowledge, property rights and contracts
2. Influential narratives shape problem thinking: Imbalances, market failures, herders`, Samaritans` prisoners` and public goods dilemmas
3. Coops have been theorized as important organizational solutions for underlying economic problems/missing institutions

----contest!

## 2. What is a cooperative (characteristics and function)?

**Dual nature association**

### Cooperative

**Social group**

+

**Business firm**

Structure, Roles, Norms,  
→ collectivity, solidarity  
Trust` n reciprocity

Individual preferences  
→ Interest,  
Prices, Cost + Opportunity,  
Economic advantage

Source: Draheim (1952)

# A: “A user-owner perspective”

Decisive criterion: not “profit-driven” but “use-driven”.

3 defining principles (Dunn 1988):

- 1. User-Owner: those who own and finance the cooperative are those who use the cooperative.
- 2. User-Control: those who control the cooperative are those who use the cooperative.
- 3. User-Benefit: the cooperative’s sole purpose is to **provide and distribute benefits to its members** on the basis of their use.

# Problem 1: Growth and agency

Collective ownership may cause property rights to be “ill defined”

The criterion of use-interest of the members instead of profit puts the analytical focus on the cost of the respective **collective choice mechanism** bringing user monitoring to bear

H: The larger the coop collective the larger the monitoring problem (Olson 1965)

## B: A functional perspective on coops

(Rondot, Coase, Galbraith, Cotteril, Guinanne, LeVay, Helmberger)

Decisive function: Complement /corrective of the market (IoF?)

- Link to the market: Smallholder commercialization
- Rebalance markets: Countervailing power
- Replace markets: Service at cost similar to competitive pricing
- Restructure the market: Economies of scale

....other

- Information distribution and screening machine (reputation)
- Collective risk bearing, entrepreneurial incubator



## Problem 2: Growth and specialization of management

### The “cost of using the market mechanism“

The idea that the coop is an extension of the farm household and 100% under control of owners had important implications for agricultural tax and anti-trust legislation.

The assumption that coops fulfil a corrective function at the market:  
The larger the market failure the larger the gains from coop growth

H: The larger the cost of pricing the more beneficial is size and the more specialized is the management towards a growth strategy



# **The analysis of cooperative change between Cost of Ownership and Cost of using the price mechanism**

# 1. Typical cost of ownership factors (Hansmann 1988)

If becoming an owner requires making a transaction-specific investment that is at risk (such as a contribution of capital that is not easily recouped when the patron withdraws from membership in the firm); then the disfavored group could be much worse off as owners than if they dealt with the firm simply through market contracting.<sup>21</sup>

Nov 2011: In Holland, the proposed merger between the second biggest Dutch dairy cooperative: DOC ([www.dockaas.nl](http://www.dockaas.nl)) which is fully specialized in producing (foil) cheese, and the biggest German dairy cooperative DMK ([www.dmk.de](http://www.dmk.de)) has been rejected by DOC members. To merge, two third of the DOC members had to agree but only 59 percent of them agreed.



## **Growth: Cost of ownership cause incentive problems:**

- Willing to invest in collective assets (redeemable?)
- Willing to invest long term (ageing)?
- Willing to accept stepwise marginalization of control (interest minorities)?

**H: Cooperative growth introduces a number of problems that render the coop's property rights structure inefficient**

# Understanding Change – Mike Cook`s Life Cycle Framework (2009) (Cook and Iliopoulos, Cook and Burrell, Chaddad and Cook)

## 1. Macro Factors

- **Geo-politics**
- **Technology**
- **Market Shifts**
- **Government Intervention**

## 2. Industry Factors

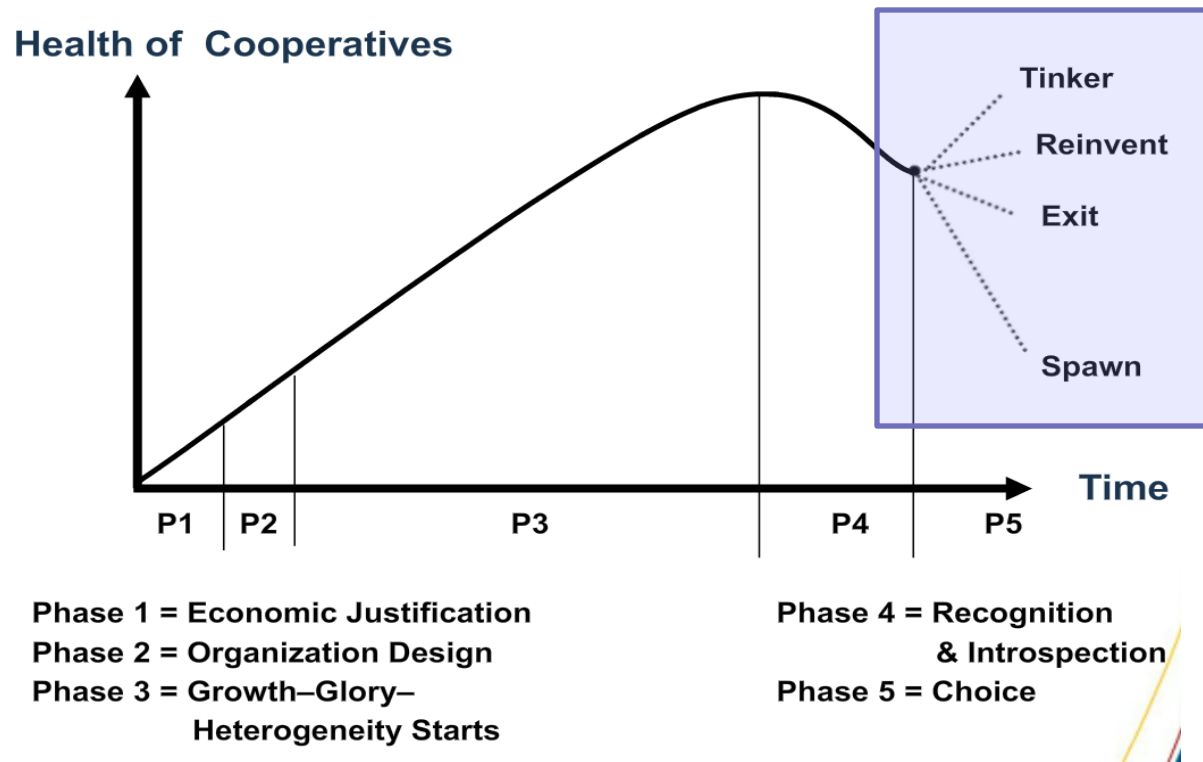
- **Change in Supplier Structure**
- **Change in Demand Structure**
- **Substitution Threats**
- **Entry Threats**
- **Rivalry**

## 3. Cost of Ownership

- **Agency Costs**
- **Risk Preferences**
- **Collective Decision Making**

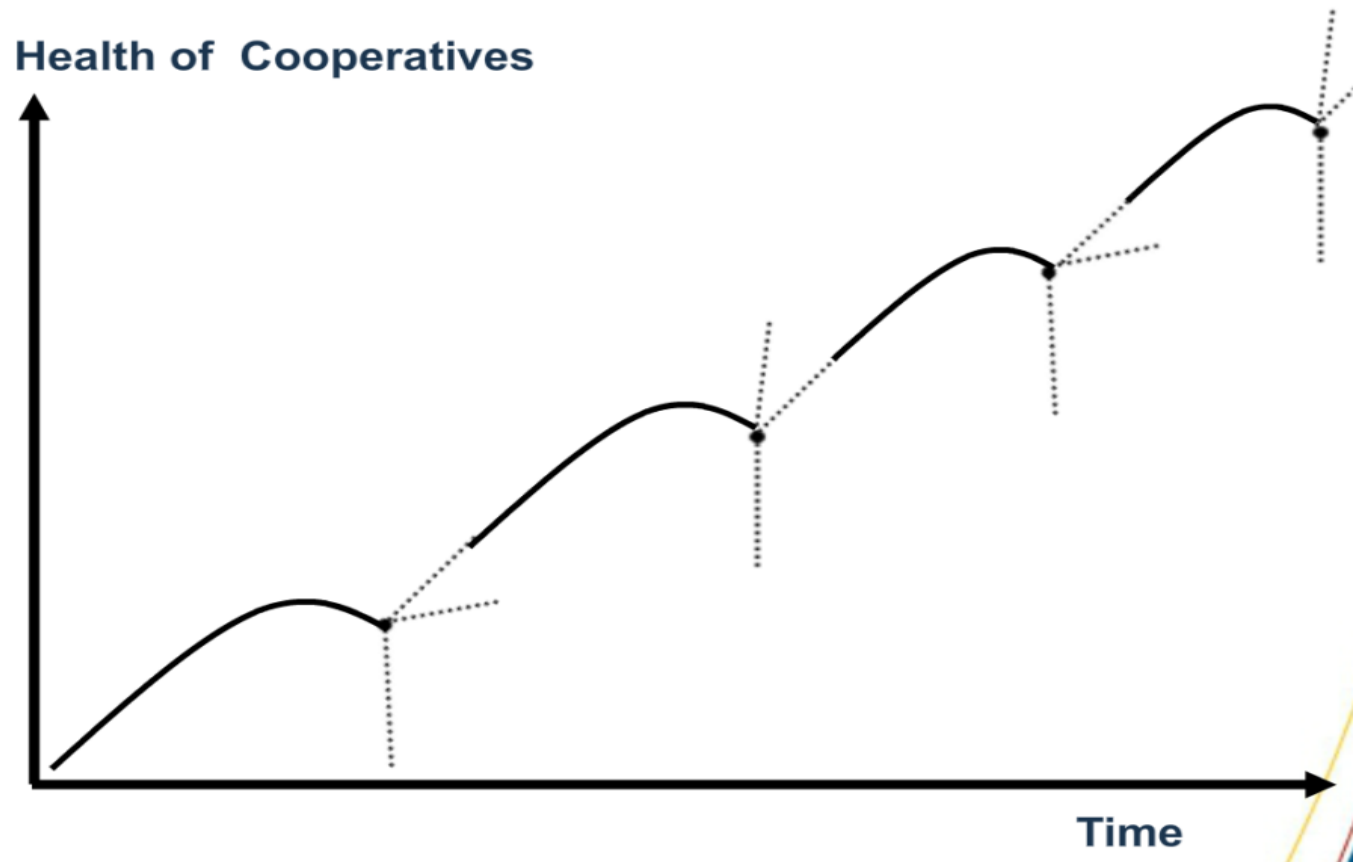
# Analyzing Change

## Life Cycle of a Cooperative

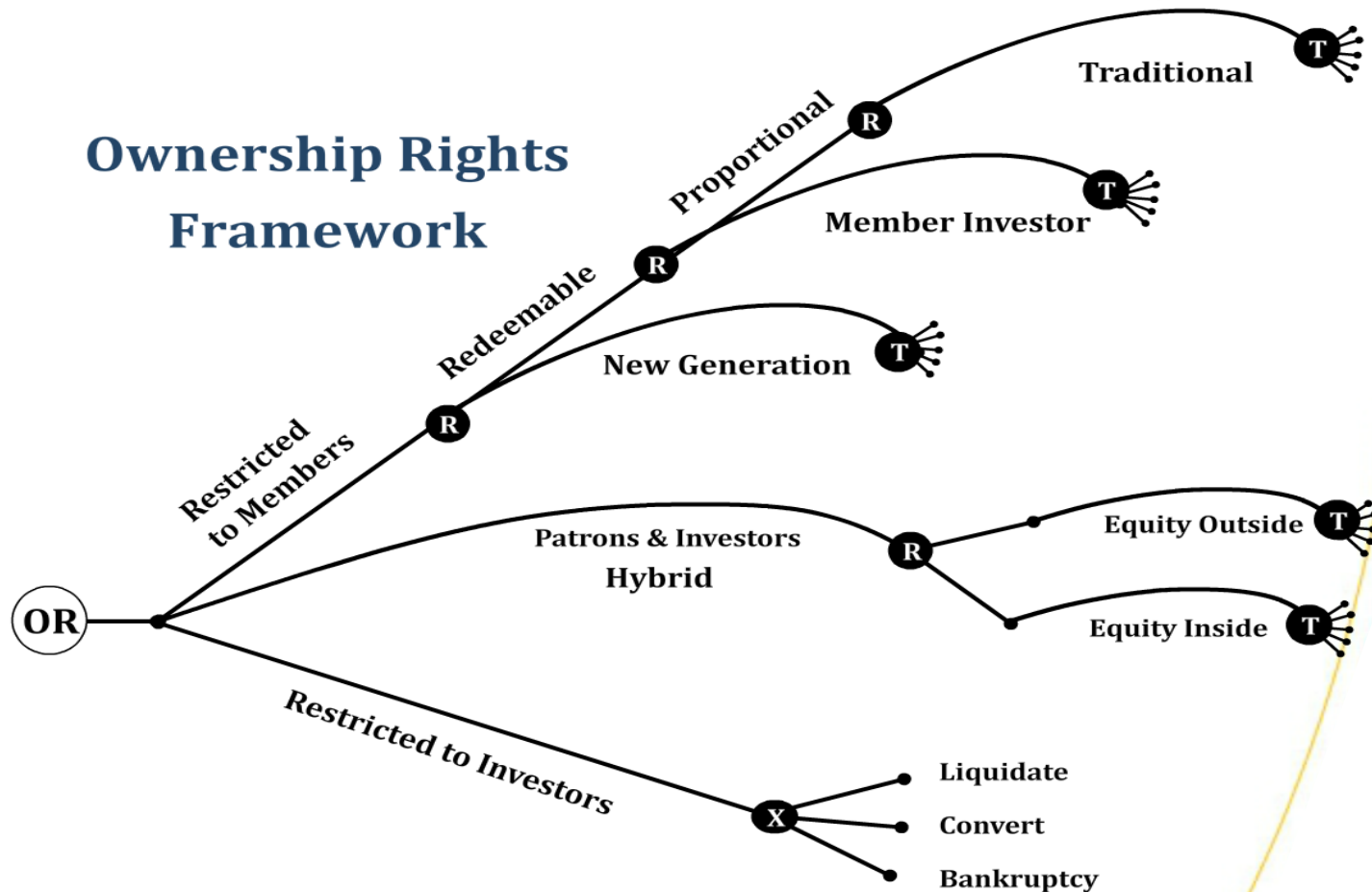


# Stages

## Life Cycle of a Cooperative



# A: Cook and Iliopoulos: Coop changes follow a “tightening ownership rights” - logic (how to get the incentive structures right?)



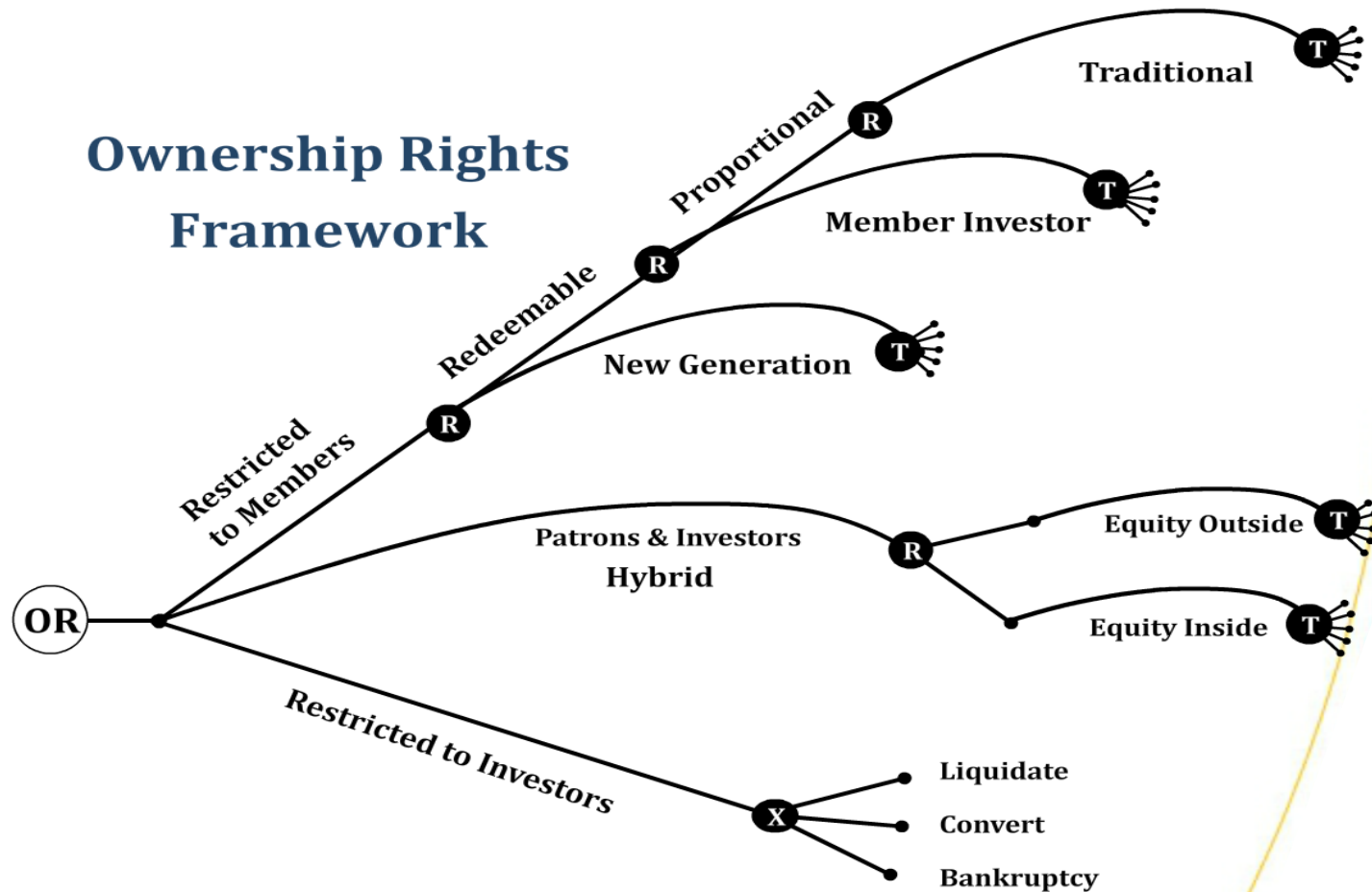


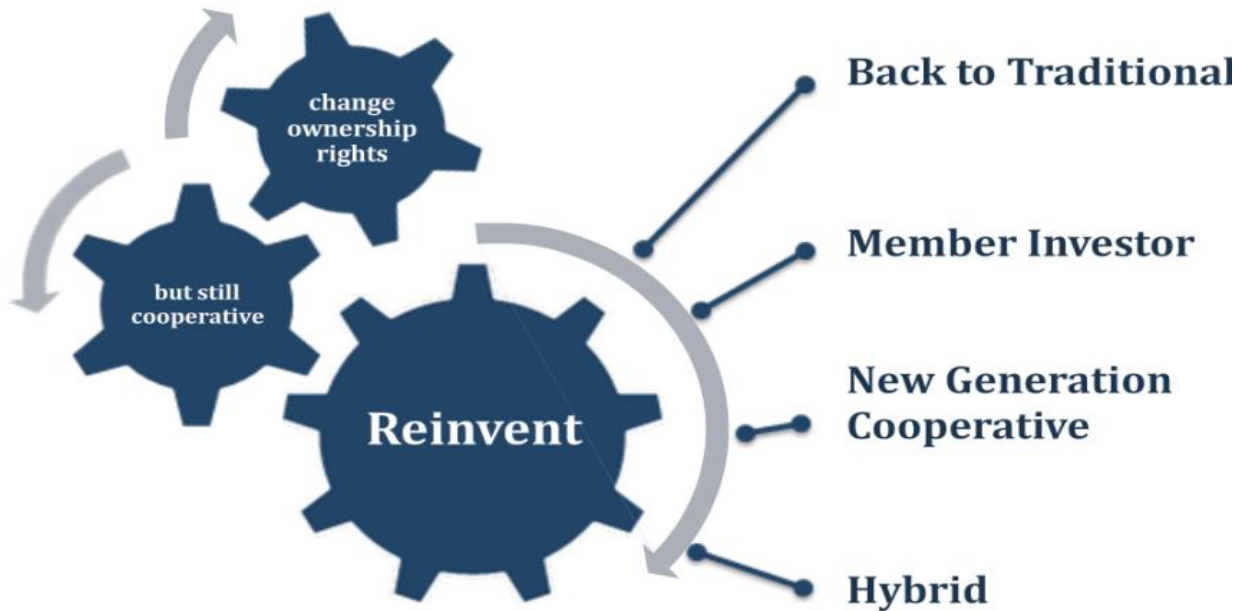
# Trajectories of coop development



- **Efficiency / Strategic**
- **Reduce Collective Decision Costs (VDPR)**  
Realign member patron-investor proportionality

# Cook and Iliopoulos





- **Efficiency / Strategic**
- **Investor-Patron**

## 2. The other problem “cost of using the market” Who is the market?

2012

- 5 Retailers handle 75% of Food and Beverages in Germany

2012

- 10 Retailers handle 33% of the European Food and Beverages

## Global monopsonies as typical cost of pricing problem

2008-2012: Bundeskartellamt, DG-Agri and DG-Competition) find evidence of:

- Market power
- Retail domination
- Price distortions
- Targeted manipulation-stool pigeon offers
- Volatility

In the European Agri-Food System

## **Both cost factors are relevant for the analysis in different stages of cooperative development**

In the literature we find influential schools of coop thought they don't exclude but complement each other:

- The cooperative as an extension of the farm household, vertical integration
- The cooperative creating a life of its own as an independent decision making unit, business enterprise (firm)

Hanisch, Rommel and Müller (2013), Bijman, Hanisch and Slangen (2014): Coop changes follow **a market-position/ reducing the cost of pricing** -logic.

H: The larger a coops share in the market the higher the price margin realized by producers (large retailers versus large producer organizations)

H: The higher the value of market position (share) the more decision making authority allocated to coop management and the higher the investment in growth

# Reducing cost of pricing? The larger a coops share...

Hanisch, Rommel and Müller (2013)

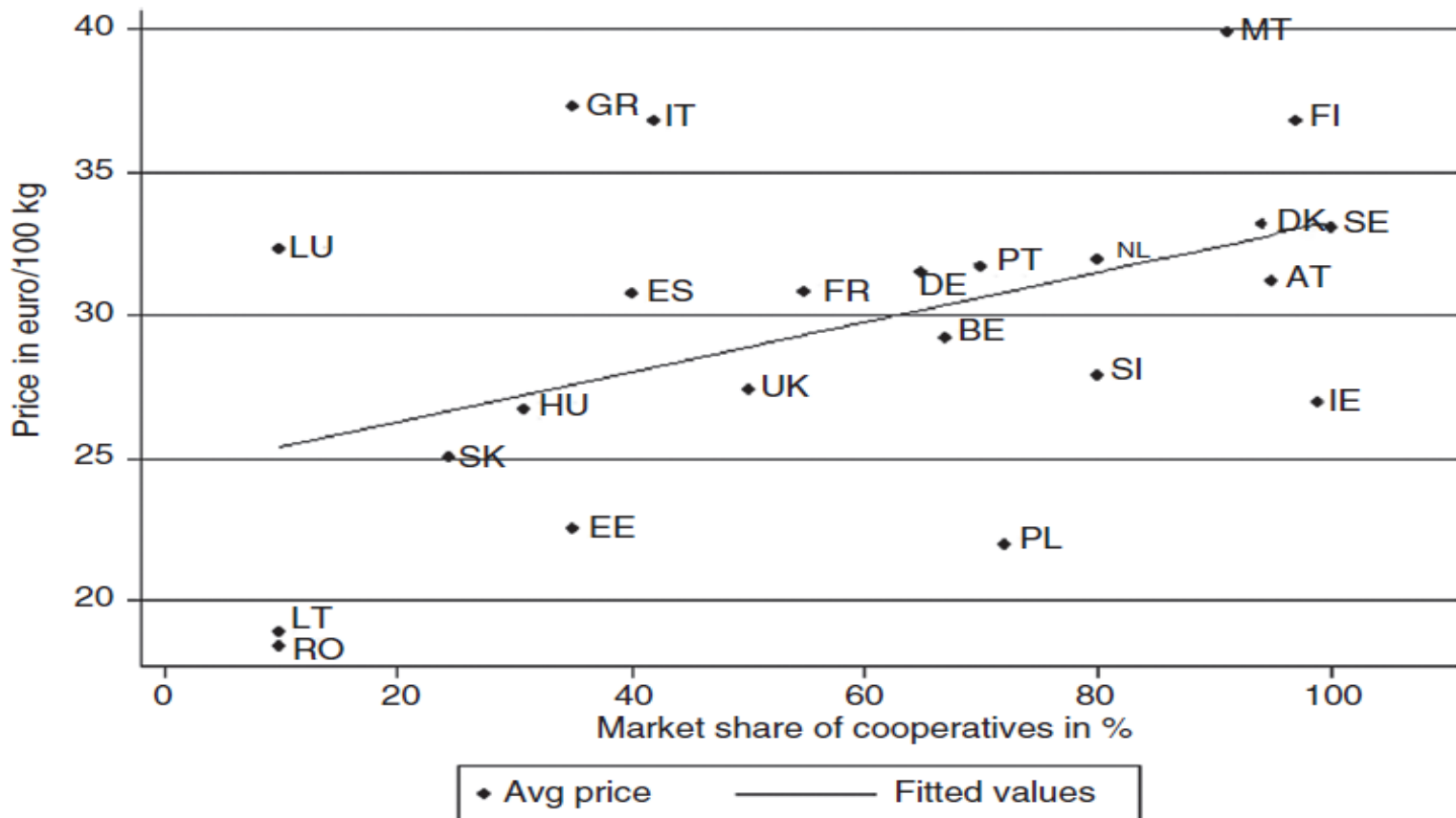
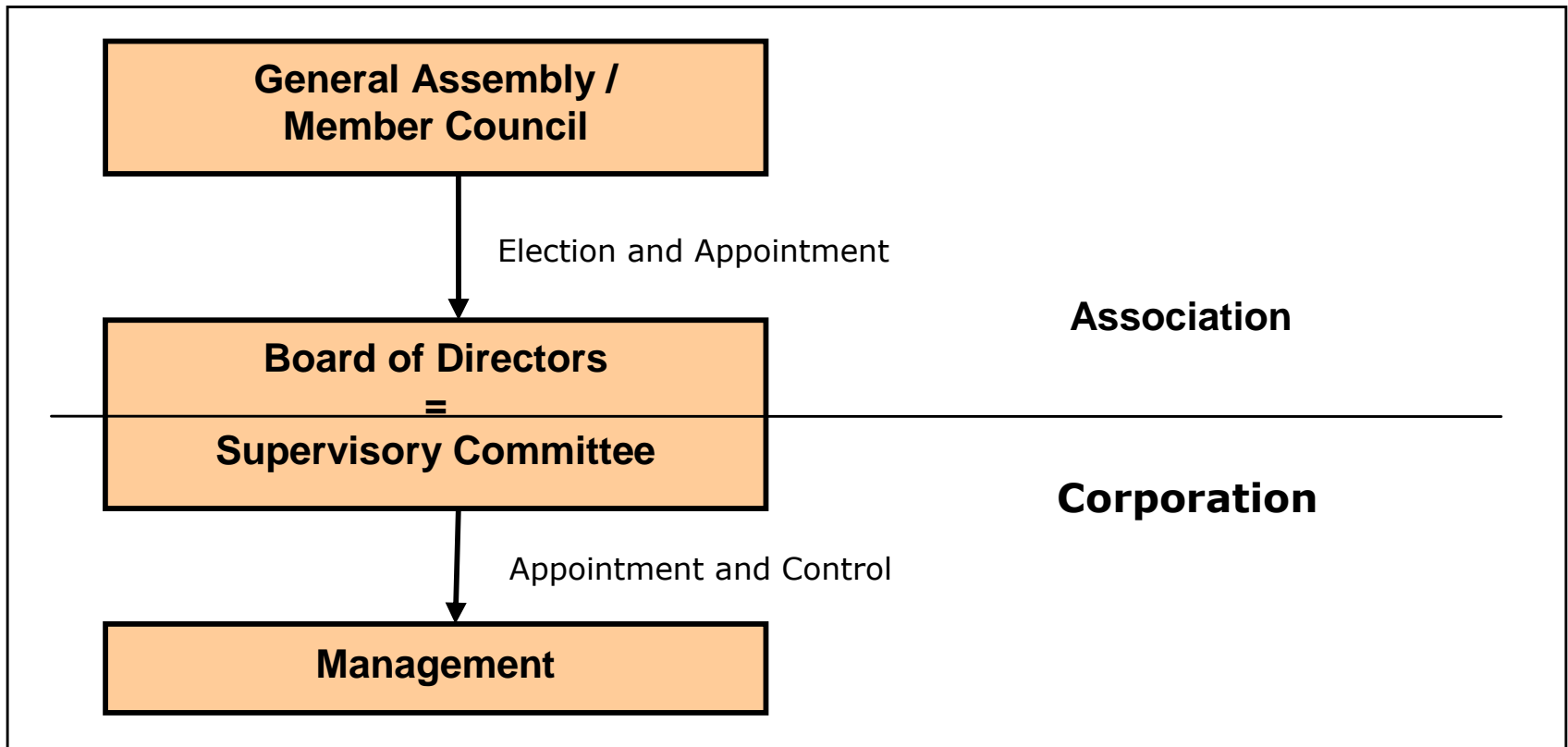


Figure 2 Cooperative market share vs. average milk price 2000–2010

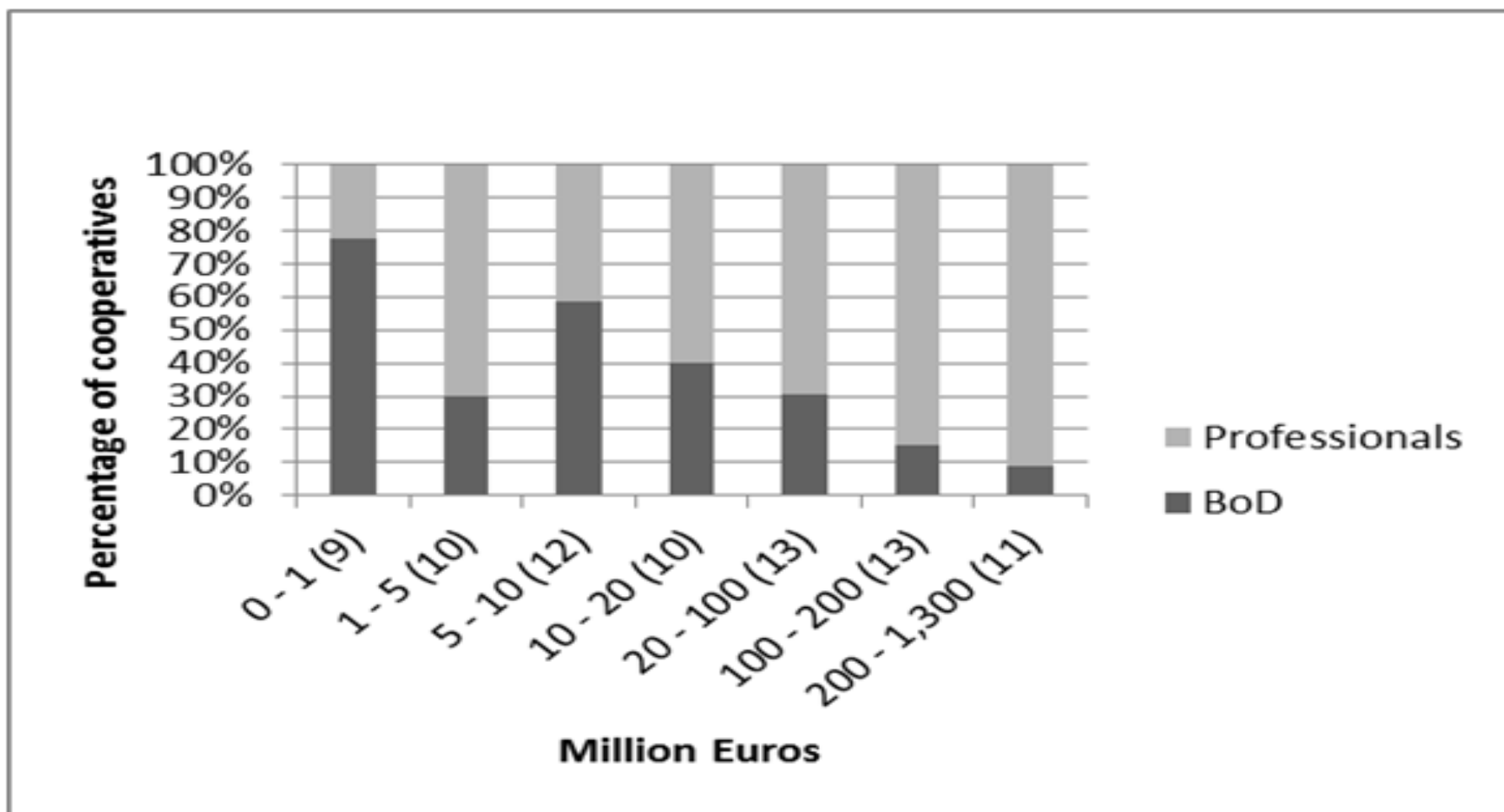


**Trend:** Where cost of using the price mechanism are high, members allocate powers to managers which demand considerable independence while focussing on mergers and acquisitions



## Trend: In larger coops members hand over control to professionals

500 Coops, 8 most important sectors, 27 EU countries



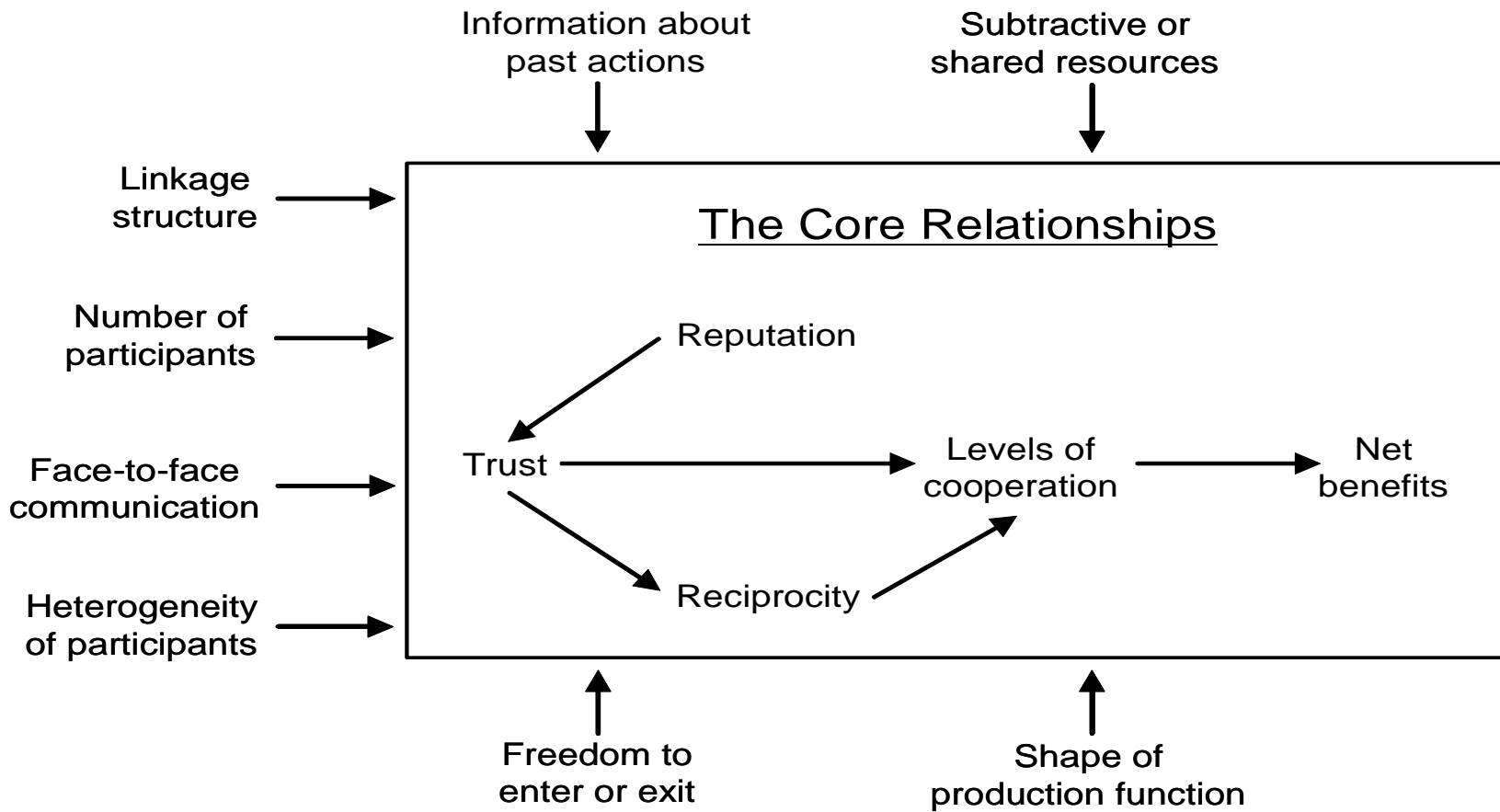
# Conclusions

- Yes growth attenuates member rights and this explains how coops “tinker” and restructure while growing
- However, the agrifood system is becoming dominated by a few very large actors influencing what producers receive - the cost of pricing. Growth is a survival strategy.
- Current speed and restructuring of coops in Europe suggests that member preferences for position may supersede those for tighter property rights.
- Current innovations in internal governance of control structures cannot be explained by a “tightening control rights logic”

# The way ahead

- Much more empirical work including price and price integration analysis, comparative economic organization, behavioral approaches modelling members willingness to contribute to collective goods under different market structure scenarios, and the concrete measurement of changes in member preference is needed to substantiate alternative theoretical claims about cooperative change.
- Incorporate commodity and natural goods attributes into the analysis may help to understand differences between sectors

# Background: Cooperation



**A framework linking structural variables to the core relationships in a focal dilemma arena.**

Source: E. Ostrom 2006

### Social, Economic, and Political Settings (S)

**S1- Economic development. S2- Demographic trends. S3- Political stability.  
S4- Government resource policies. S5- Market incentives. S6- Media organization.**

### Resource Systems (RS)

**RS1- Sector (e.g., water, forests, pasture, fish)  
RS2- Clarity of system boundaries  
RS3- Size of resource system  
RS4- Human-constructed facilities  
RS5- Productivity of system  
RS6- Equilibrium properties  
RS7- Predictability of system dynamics  
RS8- Storage characteristics  
RS9- Location**

### Resource Services and Units (RSU)

**RSU1- Resource unit mobility  
RSU2- Growth or replacement rate  
RSU3- Interaction among resource units  
RSU4- Economic value  
RSU5- Number of units  
RSU6- Distinctive characteristics  
RSU7- Spatial and temporal distribution**

### Governance Systems (GS)

**GS1- Government organizations  
GS2- Nongovernment organizations  
GS3- Network structure  
GS4- Property-rights systems  
GS5- Operational rules  
GS6- Collective-choice rules  
GS7- Constitutional rules  
GS8- Monitoring and sanctioning rules**

### Actors (A)

**A1- Number of actors  
A2- Socioeconomic attributes of actors  
A3- History of use  
A4- Location  
A5- Leadership/entrepreneurship  
A6- Norms (trust-reciprocity)/social capital  
A7- Knowledge of SES/mental models  
A8- Importance of resource (dependence)  
A9- Technology used**

### Action Situations: Interactions (I) → Outcomes (O)

**I1- Harvesting levels  
I2- Information sharing  
I3- Deliberation processes  
I4- Conflicts  
I5- Investment activities  
I6- Lobbying activities  
I7- Self-organizing activities  
I8- Networking activities  
I9- Monitoring activities**

**O1- Social performance measures  
(e.g., efficiency, equity, accountability,  
sustainability)  
O2- Ecological performance measures  
(e.g., overharvested, resilience, biodiversity,  
sustainability)  
O3- Externalities to other SESs**

### Related Ecosystems (ECO)

**ECO1- Climate patterns. ECO2- Pollution patterns. ECO3- Flows into and out of focal SES.**



**Thank you!**