



## Member influence in cooperatives:

### Contributions of Scandinavian studies to the research conducted in the United States

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**Abstract.** This literature review summarizes research on member influence in cooperatives conducted in Scandinavia and some of the research conducted in West Germany. The review divides the contents of member influence into three components: individual factors, the cooperative organization's internal factors and the organization's external factors. As individual factors, participation, representation and representativeness are considered. Conflicts in cooperative organizations, the effect of the growth of the organization and the rules of decision making are discussed as organizations internal factors. The major interest groups in addition to members (the market, personnel and the society) are presented as external factors. The external factors are increasingly challenging the nature of cooperatives as member interest organizations.

## Introduction

### Cooperatives in Scandinavia

Economic »cooperation» usually implies the organization and pursuit of the ideals of interaction and self help into economic activities. Although cooperatives are not the only form of economic cooperation, we will mainly focus on them. In Scandinavian countries, several types of cooperatives can be found including producer, consumer, housing, and work cooperatives. They all share common characteristics. Their membership is to be unrestricted, decision making

forms democratic (one member — one vote), restricted returns to membership investment and the returns allocated according to members' economic participation in the cooperative (ANON. 1981).

SKÄR (1981) categorizes the cooperatives according to their localization and type of coverage as shown in Figure 1. In Scandinavian countries, the most common cooperatives belong to the categories of unconcentrated cooperatives. The most of the unconcentrated cooperatives are rather somewhere in the intermediate area between the extremes of »specialized» or »general» coopera-

Characteristics of localization	Characteristics of coverage	
	Specialized	General, all covering
Concentrated	Certain forms of housing	A "Total" co-op (e.g. kibbutz)
Unconcentrated	A Producer co-op e.g. dairy co-op	Consumer co-op

Fig. 1. A taxonomy of cooperatives according to their localization and direction of influence. (SKAR 1981).

tives. E.g. a producers' dairy processing cooperative may have functions such as collective feed buying, calf trading, record keeping etc.

Consumer cooperatives usually cannot be described as entirely »general». Although consumer cooperatives function in many fields of consumer needs, it is hard to imagine a cooperative which can fulfil them all, without help from public and other private institutions.

Other possibilities for categorizing cooperatives are according to their reason of establishment, size, ideology, functional operations (PICHETTE 1972, ESCHENBURG 1977) etc. The appropriateness of any classification scheme is dependent upon its intended uses.

The cooperative enterprise form has varying degree of importance and popularity in different countries. In Scandinavian countries, cooperatives are very significant in many sectors of the economy. In Finland, for example, about 15 per cent of the total output of industry, 60 per cent of food industry, more than 20 per cent of banking, 40 per cent of wholesaling and 25 per cent of retailing is produced by cooperatives (KUJALA 1975). Inside the food industry the share of cooperatives is even more. About 2/3 of the grain, 95 % of milk and 90 % of meat is marketed through cooperatives in Finland (GÅSDAL 1984). In Sweden cooperatives manufacture about 13 per cent of industrial production. The cooperatives dominate the food marketing system (e.g. 60 per cent of dairy products) and cooperatives rule about

15 per cent of Swedish wholesaling and retailing (ANON. 1981).

According to the figures above, the cooperative organizations have a considerable strength and importance in these countries. The situation is similar in other Scandinavian countries. The reason to this development in Scandinavian countries is said to be twofold: »Existing conditions in these respects were unquestionably favourable to the growth of a powerful and independent cooperative movement. But at the same time the latter has itself, by virtue of its practical work and its idealist aspirations, been one of the major factors influencing the level of education and culture of the population as well as the forms and contents of public life.» (NELSON, G. ed. 1954).

Cooperatives have become politically influential in all Scandinavian countries through participation in large, federated organizations. Still, the regulations of cooperatives usually emphasize their independence from political parties (LAAKKONEN, 1978). Because of this politicalization at the national level despite the philosophical stance against political participation at the local level a question that naturally arises is, »What has happened, if anything, to the individual members' possibilities for influence in Scandinavian cooperatives?»

The objectives of this paper are:

1. To review Scandinavian and some West

German research on the factors affecting the member's ability to influence decision making in his local cooperative.

2. To summarize the literature in order to supplement the research on cooperatives conducted in the United States.

Because the intention is to review the literature, very little analysis of the results of findings will be included. The review does not cover all the research on cooperatives conducted in these countries. The reason is practical: only available is reviewed.

### Scandinavian literature on cooperatives

The formal beginning of cooperatives as they are currently known is considered to be a shop in Rochdale, England, in 1844. The present body of literature on co-operatives also began to accumulate at that time.

Scandinavians' interest in cooperatives began in the late 1800's because of the problems of small farm holders and the rural landless. Cooperatives were seen as a means of generating needed changes in the rural areas. »Merchants often sell to farmers falsified goods, the state of which the latter are not able to examine, and the use of which, in

the carrying on of agriculture, brings them considerable losses, which have their effect for many years. ... In addition this development of capitalism has drawn away from the country districts, and especially from agriculture, intellectual labor, thus decreasing the influence of the country districts and the ability of farmers to watch over their interests.» (GEBHARD 1916).

The cooperative movement has developed at the practical level and in the literature, two main focii: the farmers' cooperative movement associated with rural people and their ideologies, and consumers' cooperative movement associated with urban labor movement and their ideologies.

The literature on co-operatives published in Scandinavia is too large to review in its entirety here. The literature can be categorized, according to SKÅR (1981) into three categories; (a) utopias, (b) practical and (c) scientific works as shown in figure 2 above.

The utopian literature treats cooperatives as a component of the »new society». It is based mostly on the assumption of common values, and this is similar to the literature associated with many other utopian ideologies such as new small community constructions.

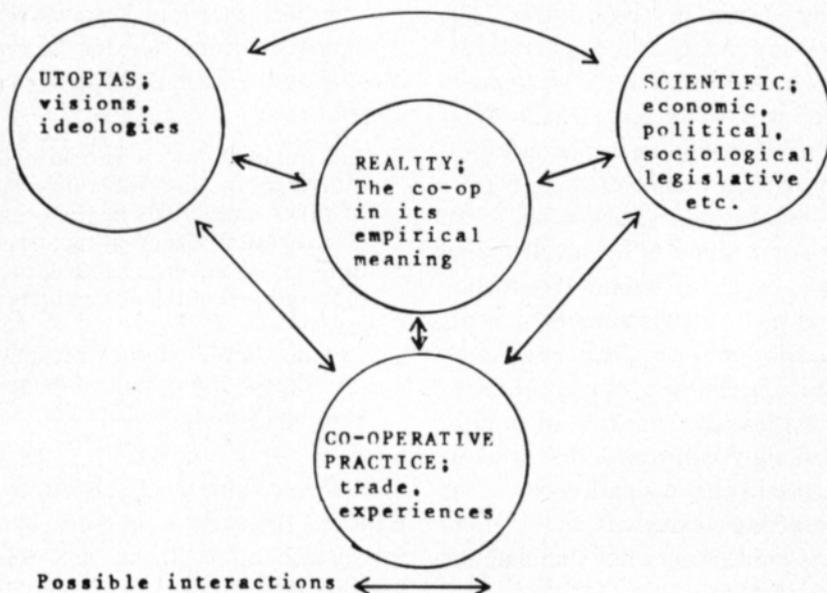


Fig. 2. Foundations of knowledge about cooperatives. (SKÅR 1981).

The practical, descriptive type of study dominates cooperative literature in Scandinavia. Because so many of the studies are conducted with the support of cooperatives, some take a philosophical view close to the utopian literature and critical analysis is avoided. Literature in this category has sometimes been used to promote the interests of cooperatives (SKÅR 1981).

Scientific literature on cooperatives is not very well developed in Scandinavian countries. Despite some individual attempts to explain cooperatives theoretically (e.g. KAARLEHTO 1956), research seems to be at the stage where the most interesting results are still to come. The strong position of cooperatives has probably been a hindrance to objective, critical theory establishment, despite the resources put into research. This paper which draws from the literature in the intermediate area of scientific, reality and practice in figure 2, will summarize some of the Scandinavian research on member influence in cooperatives.

#### Cooperative democracy and member influence

The member meeting is the highest decision making forum in cooperatives. The cooperatives' grounding as a democratic association is already stated in the well known Rochdale principles. ISAKSEN (1982) states that a cooperative without a democratic decision making system cannot exist.

Isaksen describes democracy as an arena for interest competition, a means of taking different and even sometimes conflicting opinions and their relative support into account in decision making. Democracy does not mean that the conflicts among the members can be settled. But they can, in an ideal case, be optimally controlled (ESCHENBURG 1974). This means that a solution where the sum of conflicting interests is at minimum can be found but this does not eliminate the existence of conflicts.

Isaksen states that political-scientific phi-

losophers have emphasized the goal setting process which is »built» into the democratic system. He notes, however, that these ideals of democracy of large societies can not be directly implemented in cooperatives. He criticizes some generally accepted notions about democracy including the notion that democratic organization promotes general interests. He doubts that »many peoples'» interests are always general interests, although they probably are more general than »few peoples'» interests. He also reminds us that democracy educates those who are participating. Another statement criticized by Isaksen is that democracy promotes efficiency. He says that working towards the same goal can probably do so, but that the democratic system is slow. In other words, democracy may sometimes occur at the cost of efficiency.

The practical meaning of democracy is different in present-day large cooperatives than the earlier, smaller cooperatives. The decision making system has become much more complex, and the shift from direct to indirect participation has occurred.

What is the real content of member influence in modern cooperatives? AKSNES' (1982) illustration of the components of member influence in a cooperative is shown in figure 3. Aksnes divides the contents of member influence in a cooperative into three components:

- Individual factors: The relationship of an individual to the organization and as well to other individuals in the organization.
- Organization's internal factors: The relationship of the organization to its working conditions, decision making structure etc.
- Organization's external factors: The relationship of the organization to the relevant market, authorities etc.

In the remainder of this paper the relationships discussed by Aksnes, and the factors which affect them, are examined in greater detail. In section 2 individual factors affecting member participation and repre-

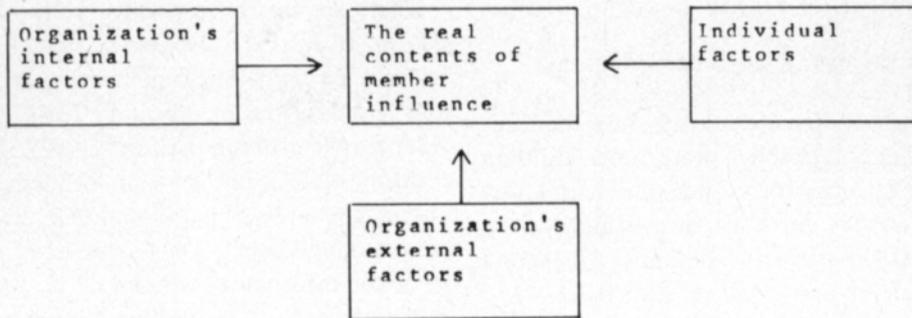


Fig. 3. The components of member influence by Aksnes.

sentation are examined. In section 3 the cooperative organization's internal factors affecting the member influence are considered. Such elements as conflicts, the impact of the growth of a cooperative and decision making rules are discussed. In section 4, a shift from inside to outside the cooperative is made, and some external factors affecting the cooperative and its member influence are examined. Three interest groups, the market, the personnel of cooperatives and public authorities are considered.

It should be mentioned that the components mentioned in figure 3 components are not independent from each other, but inter-related. A shift in one affects the others.

### Individual factors

#### Participation

Participation is viewed as the interaction between the co-op and an individual, usually a member. AKSNES (1982) categorizes the participation into three categories: (1) membership/no membership, (2) participation in economic activities and (3) participation in the organization's decision making system. According to AKSNES (1982), the important questions regarding participation in cooperatives are:

1. What are the most important factors for a farmer to consider in determining whether to become a member of a cooperative?

2. Which factors affect the individuals' participation in the cooperatives' decision making system?

Member participation in a cooperative can occur in two ways. A member can participate in the economic activities of an organization and in the decision making system. SKÅR (1981) places the decisions made in the first area in the category of participation exploitation decisions (economic transactions) and in the second, adjustment and participation decisions. Usually everybody can participate in exploitation decisions, but participation in adjustment decisions requires that a person is a member of the cooperative. In this section our focus will be on participation in the decision making system of the cooperative.

The decision to become a member is usually considered to be a result of an individual's rational thinking and the expectation that the benefits of membership will be greater than the costs (SKÅR, 1981). Benefit expectations are motivated by different needs. There is not much research done in Scandinavian countries in this area.

The decision to participate in the economic activities of the cooperative after joining is influenced by economic and ideological (cultural) factors (AKSNES, 1982) including:

- participation as a value itself
- participation as a sign of taking care of duties
- participation as a sign of solidarity

- evaluation of benefits through participation
- cost savings through participation

Many Scandinavian studies show that economic factors are much more important than ideological ones (AKSNES, KAARLEHTO, LAAKONEN) in this decision. HERNES and MARTINUSSEN (1980) discuss a similiar set of factors which affect participation. (See figure 4)

Aksnes examines the benefits of participation to the member and how different members value these benefits. A member can get economic benefits through participation, if s/he can affect his/her own economy through collective decisions. Most decisions in a cooperative are economic in nature, and they will benefit or become a cost to the member regardless of their degree of participation. The social and cultural benefits are important as well and cooperatives are viewed as having had a positive effect on democratic development in general.

Aksnes also presents the concept of »citizen's duty» to explain co-op participation. His study showed that relatively many Norwegian farmer co-op members who were interviewed regarded participation as member's duty. This corresponds with HERNES and MARTINUSSEN'S (1980, ref. Aksnes) study which found that the citizen's duty was a good explanation of high participation figures.

There are always costs involved in participation. If a person can get the same benefit without participation (not being a member and avoiding the membership fees), a free rider problem occurs (AKSNES, 1982).

Aksnes (1982, pp. 25—26) outlines different activity levels of participation in the decision making system. The first level of activity is the information seeking level, the second is the activity in meetings, the third one is representation and the fourth is direct action (cf. BARTLETT, 1973).

At information seeking and meeting activity levels AKSNES (1982) found that the level of education and the experience in organizations are the best explaining factors of participation. After these come farm size and the amount of goods delivered through co-ops. At the decision making level, high social status of the member seemed to be the most important factor.

The factors examined by Aksnes are to a great extent dependent on each other. It was mentioned before that participation educates and awards more experience to the participants. A large farm affects status and the amount of goods delivered through the cooperative. Aksnes study does not mention how the correlations between the examined factors were eliminated.

ALS (1982) conducted a survey of member participation in various sizes of Danish dairy co-ops. He concludes that:

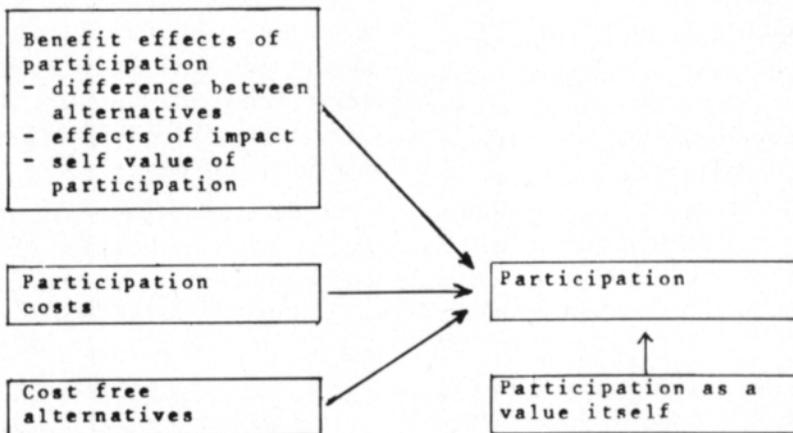


Fig. 4. Factors affecting the member participation in a cooperative.

- \* There is no significant connection between the member participation and the size of the cooperative.
- \* The type of meeting and the knowledge level required to participate, restrict a significant proportion of members and trustees from being active participants.
- \* There is a considerable difference between the actual content of the meetings and the contents preferred by the members.
- \* Members' knowledge about the central issues for guiding and controlling the cooperative was not sufficient.
- \* There is a significant difference between management's and an average member's attitudes about important questions. Thus, many of the official attitudes, policies and activities are not supported by the majority of members.

ISAKSEN (1982) in his study of Norwegian coops concludes that member participation is important to the maintenance of the cooperative because it stimulates active persons, stimulates the achievement of desired goals and gives to the members a broader view of the decision making environment than can be achieved in any other governing system.

Participation in the decision making system in a cooperative is necessary for preference formation on the part of the member and the cooperative as a whole. Participation in the system depends on the motivation of a member which in turn depends on the economic and non economic benefits to be expected from participation. The members are different and value different benefits from participation. For instance, some members are interested in information for economic purposes while others seek status and acceptance in the community.

The desired benefits may not be achieved by all the participating members, and thus, participation may decline. Aksnes, Isaksen and Als all point out that there is little relationship between the benefits and costs of participation and the size of the organization.

Large co-ops may be able to establish a more sophisticated preference articulation system. They probably also have more re-

sources for educating the members to be »better participants». The relative impact of strong, influential persons, either members or managers, is perhaps less dominating in large co-ops. However, there are many factors which may negatively affect the participation and member influence in large co-ops. These factors are discussed in greater detail in a later section.

#### Representation and representativeness

»Representativeness» indicates the visibility and consideration given to members' preferences in the decision making system. »Representation» in turn indicates the means of indirect preference expression in the decision-making system. The question of concern to cooperatives is how the representativeness of preferences can be maintained through the representation.

The importance of the question of representation has increased along with the growth of cooperatives and the increasing complexity of the decision making system. In large cooperatives, the direct participation of members in the decision making system has become impossible and most decisions must be made through elected representatives.

ISAKSEN (1982) questions what this shift to indirect decision making means in a democratic organization and its effect on member influence. He does not answer these questions, but states that the requirements for a good representative include that s/he is elected by the people s/he presents, to certain extent, has the characteristics of the group, and is able to become a symbol of the group. (cf. BIRCH, 1971)

RØKHOLT (1982) states that a representative is not truly representative until s/he is representative in both background (measured by socio — economic and demographic criteria) and opinion. Similarity in opinion can stem from similarity in background, but this is not always the case. According to ISAKSEN (1982) a farmer cooperative's representative should be a relatively wealthy farmer so that s/he

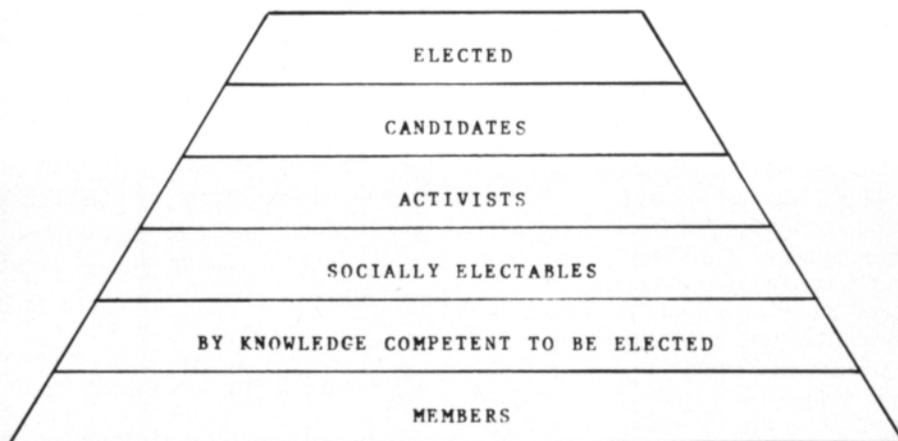


Fig. 5. The recruiting process by Røkholt. (RØKHOLT, 1982).

can put enough time and money into representation.

There is a problem with opinion representativeness after the representative is elected. Their opinions and attitudes often become modified because of socialization in new roles (RØKHOLT, 1982). ISAKSEN (1982) supports this argument by stating that participation widens the participant's view, and thus changes opinions. The socialization can be considered as a positive phenomenon. If the representatives would entirely maintain their opinion it could bring rigidity into new idea generation.

Representativeness strongly influences the degree to which different preferences are presented. Røkholt examines possible causes of certain representative structures by diagramming the recruiting process as shown in Figure 5.

The structure and bylaws of the cooperative define who is qualified for membership. According to Røkholt, in Norway, where a member of a farmer cooperative has to be a farmer, there are not many women represented in the organization.

A certain level of activity in the cooperative by a member is required in order to be elected. The person also has to show willingness to be a representative. OFFERDAHL (1974) states that one of the most important criteria for

consideration of a person's candidacy, is a kind of decentness or properness as a citizen. Only the »socially electables» can be considered as real candidates for election.

RØKHOLT (1982) presents another way of examining the recruiting process. He mentions three main factors which define who is going to be elected: (1) individual factors, (2) situational factors and (3) organizational factors. Røkholt considers these explaining factors as competing with each other, and rearranges them as:

1. Individual factors
  - a. demographic factors
  - b. socio-economic factors
  - c. attitudes/opinions/competence
  - d. the rate of activity, willingness to be elected
2. Situational factors
  - a. organizational norms
  - b. the notion about the situation in the organization

Røkholt connects these factors with earlier mentioned recruiting process, and presents the process in figure 6:

Røkholt uses this model to examine factors leading to certain structures of trustees in cooperatives. He has examined how the structure varies in different types of cooperatives, which members are active in cooperatives, and whether members willing to be elected have common characteristics.

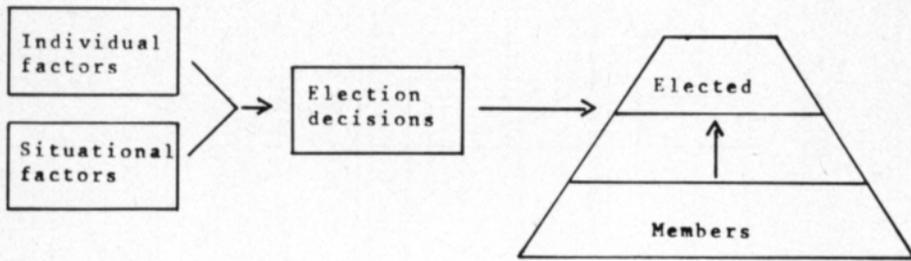


Fig. 6. The recruiting process supplemented with factors affecting to the election decision (RØKHOLT, 1982).

Røkholt did not find any significant differences in the variation of the representative structure in different types of cooperatives. He studied meat, egg and dairy producers' cooperatives. The representatives did seem to differ from their electors in socio — economic background. The representatives had a higher social status. Their socio — economic status also seemed to make them more willing to seek a trustee position. The difference in the social status seemed to increase the higher in the hierarchy the level of trustees. Røkholt states that this phenomenon is similar to that found in other voluntary organizations. The cooperative idea base itself seemed to have no impact on this characteristic of democracy.

Because socio-economic background and willingness/suitability to be elected are correlated, it does not seem to be easy to leave the elite structure. However, Røkholt did not find that differences in the representatives background had an effect on their opinions. The socialization process and the role as a trustee seemed to have a stronger impact on perceptions than the background.

### Organization's internal factors

#### Conflicts in the cooperative organizations

According to cooperative principles, every participant should be treated equally. This ideal could be attained if everyone's preferences and interests were the same. But this is never the case. In addition to differing ex-

pectations, every participant can value the same goal or benefit differently.

According to ESCHENBURG (1974), consciously arranged cooperation has to be based on decisions made by mutual consent of the participants. The decision always specifies allocation of costs and benefits. This means that in a cooperation of self interest seeking subjects the control of conflicts has to be included.

Eschenburg divides the conflicts in cooperatives into two categories. We will discuss each in turn.

(1) Horizontal conflicts: conflicts inside the institutions such as member meetings or within the board of directors. One cause of horizontal conflict is the anticipation problem. This is the conflict between the member and the group, which occurs when the temporary and final prices differ. KAARLEHTO (1956) discusses the same problem in a buying cooperative. His analysis is discussed with reference to figure 7.

The firm's profit maximizing output is OS. KAARLEHTO (1956) shows that a cooperative cannot operate at that level. In order to reach the maximum group »profit» to the cooperative members, the cooperative has to set the temporary price at the point where the AC is at minimum (M). At that point the members buy a quantity OR, and the co-op gets profits  $P_F MLP_T$  which will be paid back to the members later.

According to Eschenburg, the group profit maximum will be reached only in case the members behave as if the temporary price

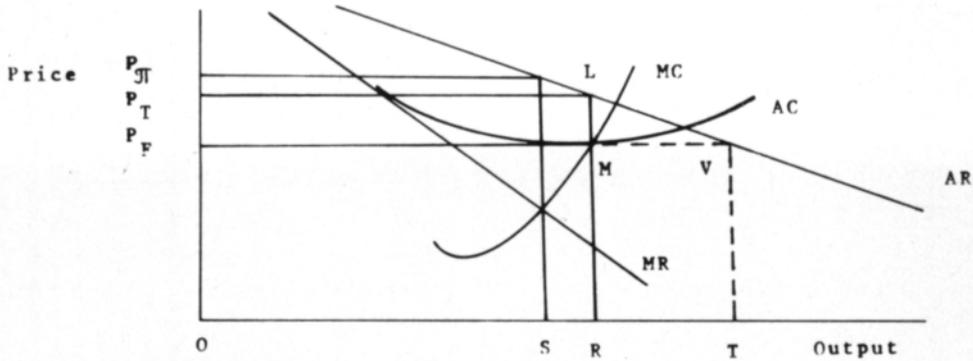


Fig. 7. The pricing problem in a buying cooperative. (KAARLEHTO, 1956).

$P_T$  would be final. If not, the members will increase their purchases to  $OT$ , at which point ( $V$ ) the average costs are considerably higher. The cooperative creates a social trap for itself (PLATT, 1973).

ESCHENBURG (1974) mentions that the possibility of a member behaving against the group benefits without punishment, increases when the cooperatives become larger. According to this analysis the appropriateness of the returns in proportion to the use of the cooperative decreases when the cooperative becomes larger.

This analysis is short run in nature. The cooperatives, in the longer run would not sell below the average cost but would, instead, decrease the dividends given to the members. It is also questionable how quickly the average costs would increase after  $M$ . But if they increase at all and the cooperative can not ask for a higher price from the later buyer than from the earlier one because of the principle of equal treatment, the cooperative is not operating at the point where the average costs are at minimum.

»Even if the anticipation problem would be more theoretical than practical, it is a very illustrative case to show how the members get into the situation where they have to choose to behave either individually or collectively and they have, in order to be rational, to act against the collective interest.» (ESCHENBURG, 1974). KAARLEHTO (1956) mentions that patronage dividends are, in many

cases, rather insignificant. For instance, because of taxation, the cooperatives try to make the initial price as exact as possible.

UTTERSTRÖM (1982) considers the increasing heterogeneity of members in modern Scandinavian farmer cooperatives a significant problem. Not only differences between various farming methods, traditions and attitudes towards the profession, but rapid changes in agricultural production have increased heterogeneity. Specialization has been predominant, and the large producers have become fewer but larger. Smaller producers often have another profession besides farming.

The fast development of agricultural production technology and knowledge have increased the differences in the opinions between young and enthusiastic, and old and experienced farmers. Young farmers with a lot of debts may have other kinds of interests than old debt free farmers. Different areas of production can cause conflicts as well. A grain producer has a different interest in the price of grain than a feed buying beef producer.

KUHN (1974) describes the problems of cooperatives as the conflict between maximizing the profits of its members, and operating as an independent, competitive economic unit. Kuhn states that this basic conflict in the cooperative can be interpreted as an allocation problem.

KUHN (1974) also presents a game theoretic

tic model for the analysis of patronage dividend allocation. In this model he examines how the benefits of being a member affect the exit of a member and how the cooperative values the member's membership relative to exit. Most interesting in his work is the introduction of transaction costs in the bargaining process between the cooperative and members.

Different members are not equally important to the successful operation of the cooperative and thus, they have different bargaining powers. KUHN (1974) points out that a small member does not plan to exit at all because s/he is afraid of competition outside the cooperative. Large members, on the other hand, are always considering exiting, because of their high threat potential. Thus, the large members (e.g. measured by their strategic importance) will always demand higher benefits to them than the smaller ones.

Kuhn states that it would be very dangerous to the cooperative to give the member meeting the authority to decide patronage dividends. With one member — one vote rule it would be just a matter of time before the larger members would exit and establish a competing cooperative. Other conclusions from Kuhn's research are:

There is no »optimal« allocation process, because the solutions are highly dependent on the size and structure of the cooperative and the mentality of its members. (cf. Staatz, J. 1983)

The »One man — one vote« principle has to be abandoned. This principle is more dangerous to the existence of a cooperative the smaller the number of members and the more heterogenous they are.

The larger some members are, compared to the other members, the larger economic power the cooperative must have. It should be able to delay the dividends if necessary.

Because of a chance of unsolvable conflicts, the cooperative should be managed, at least to some extent, by non-members.

The relatively large power of the management should be compensated by an efficient control system.

By establishing the rules of the allocation of patronage dividends, a cooperative can control the action of large members in order to avoid dangerous, unstable or escalating situations.

(2) Vertical conflicts: Conflicts between different institutions (e.g. between the board members and »regular« members). In addition to different interests, conflicts between various groups can be caused by the socialization process. Persons getting a more general view of the operation of the cooperative may have different opinions about the optimal control of conflicts than before.

As an example consider the conflicts between the first degree (local) dairy cooperatives and the second degree, federated (regional) cooperative in Finland. The local first degree cooperatives have the responsibility of production, and the second degree cooperative carries the responsibility of marketing and coordination. Because of coordination some of the decision making power of the local cooperative has been shifted to the federal level. For instance, in some areas there have been quarrels because the federal cooperative wants to decide to which cooperative an individual member should belong.

The conflicts between the management and members can be considered as vertical conflicts as well. ESCHENBURG (1974) points out that there should be no problems in the conversation between the management and members in a cooperative. The member meeting is the highest decision-making group and thus, should be able to prevail even against the management's desires.

Eschenburg states that this is, however, very questionable at the practical level. First, the management should be aware of members' preferences to be able to fulfill them. Secondly, because of high transaction costs, the decision making has to be somewhat delegated, even at the risk that the management sometimes would act against members interests. Thirdly, the decisions are dependent on the information the different subjects have.

Eschenburg concludes that the management prevails much more often than members in cases where their interests conflict. Because the management has access to a broader range of information and technical expertise, it is possible that the members are manipulated into making decisions prepared by the management which are actually against their own interests. Eschenburg says that this result is particularly dangerous to the members who do business exclusively with the cooperative. Thus, doing business with competing firms, which can be considered against the cooperative's common interest, can actually benefit the members.

The idea of »harmony« really seems to be inadequate in examining the cooperatives. There are different, more or less conflicting interests in a cooperative. These conflicts cannot be hidden or avoided. But after admitting their existence they can be, at least to some extent, controlled. There is, however, the question of what criteria to use in ranking interests in the the decision making process and how the conflicts are compensated. The criteria used to rank interests and reduce conflict among different interests can be in conflict with the principle of democracy. Questions which arise include, if just one of many different alternatives is chosen, how can it be assured that the best one is chosen? According to what criteria is the one alternative better than the others? Is the opinion of the majority always closest to the »right« one? How much can the majority decide against the minority?

#### The growth of the cooperative

One of the aspects of cooperatives which is discussed extensively in Scandinavian countries is the impact of the growth of the organizations on member influence. MOGELHØJ (1982) divides the impact of the increase in the size of a cooperative on member influence as follows:

- When the number of members in a cooperative increases, the relative in-

fluence of an individual member decreases.

- The election shifts from direct to indirect.
- The distance between average members and decision makers becomes further in both the geographic and organizational sense.
- The power of hired management can be expected to increase, e.g., because of the need of more expertise. This statement gets support from Laurinkari et.al. (1982, p. 136) published results of the research on Finnish cooperatives.

But on the other hand, it can be expected that the larger cooperatives can have a stronger impact on their environment and, thus freedom in making decisions becomes greater.

Cooperatives have grown and merged into very large and complex organizations in every Scandinavian country. In contrast to the critical opinions of many cooperative researchers in the US (BREIMEYER 1965, TORGERSON 1970, KRAVIZ 1974), there is not much evidence in Scandinavian cooperatives of a decrease of member influence directly attributable to the increase in their size. UTTERSTRÖM'S (1982) conclusion after examining large Swedish farmer cooperatives was that »there are no direct and acute crises to be seen in the circumstances between the members and farmer cooperatives as a direct result of establishing large, federated organizations.« Already referred is the conclusion of the Danish dairy cooperative study conducted by ALS (1982) that there is no significant connection between the size of a dairy cooperative and member participation.

Although size itself does not seem to be a significant factor in shaping member influence, there are other factors which are closely related to the growth of the cooperative which do. UTTERSTRÖM (1982) states that »associations' increased complexity is in the future a more dangerous threat to member democracy than size. ... In a complex environment of a large cooperative, it is a more and more difficult job for a trustee to be a

link between the members and management.»

PESTOFF (1982) writes, »Is it possible that an organization becomes strong in capital, influential and still is managed democratically by its members? The answer in a recently established federal cooperative in Sweden is absolutely. »No«. There is no room for an individual member's opinion anymore. Thus, the cooperative will be reorganized soon.» It may be questioned whether the effect for redesign is not member influence?

MOGELHØJ (1982) concludes that an average member in a small dairy cooperative has closer contact with the management/decision makers than a member in a large cooperative. Mogelhøj did not get a clear answer about the relative impact of hired management in different sizes of cooperatives. But he mentions how important a person the manager of a small dairy plant can be to the operation. He states that the hired management has a lot of power in the small and intermediate, as well as large cooperatives.

Although the size itself does not, according to Scandinavian researchers, have direct impact to the member influence in a cooperative, it is so closely related to the other factors that the size can not be ruled while examining the member influence in cooperatives. Even if an equal amount of member influence could be obtained in various sizes of cooperatives, the requirements for the preference expression system are different. The Scandinavian research has not clearly defined the content of measured member influence. An interesting question to examine would be, are there any differences in the contents of member influence in different sizes of cooperatives.

Another aspect closely related to the growth of cooperatives is the distribution of responsibilities in a cooperative. It has often been stated in Scandinavia that in large cooperatives the responsibility of certain functions is so high above the regular members and so dispersed in the organization that it is actually almost nowhere. The question

of the relationships between power and responsibility in a large organization is not a well examined area in cooperatives, either.

#### The rules in decision making

One of the main principles of a cooperative is democratic decision making. In most of the cooperative literature, this principle is just mentioned without further consideration. Others mention the one member — one vote principle as a proof of democracy's existence.

The one member — one vote principle seems at a first glance to assure that equal member influence and »fairness« in a cooperative. But there are some problems with this principle. For instance, if somebody spends 10,000 marks every month at the cooperative and buys 100 % of his farming supplies in the cooperative, doesn't he consider it unfair that another person occasionally spending just 10 marks in the cooperative has an equal right to decide about the conduct of the cooperative? Even if the importance of the cooperative to each member could be judged as equal, can it be ensured that the optimal compromise of different preferences is reached through one man — one vote?

In the case of conflict between the immediate payoff and the long run existence of the cooperative (capital collection), can the optimal solution be reached by the members? It was mentioned above that KUHN (1974) did not consider the member meeting to be proper forum for deciding payoff allocations. He would delegate this work to the executive committee or to the board of management.

Even if an optimal control of conflicts (ESCHENBURG, 1974) could be reached, some problems would remain. The member meeting can not be assembled all the time, and in changing circumstances strict decisions about the conduct cannot be made. In very large cooperatives, there would be practical problems even in arranging a member meeting. Thus, some decisions have to be

delegated from member meetings to smaller groups, even in small cooperatives. Rules have to exist for definition of relations between different institutions as well as members in a cooperative (ESCHENBURG, 1974). The rules define whose interests count (SCHMID 1978).

Legislation defines the basic form of a cooperative in most countries. For instance, in Scandinavian countries, legislation recognizes the special characteristics of a cooperative as an economic association. But the legislation does not very well take into account the special characteristics of different types of cooperatives.

Despite legislative regulations, a cooperative must have its own rules. These rules should define the roles of different institutions, and how conflicts are solved. The »sufficient» member democracy does not have to mean that every decision should be made democratically. The rules should define to what extent democracy is implemented in the decision making process.

After decisions are made by the members, these decisions can be implemented in a wrong way (differently than decided) if the control is insufficient. ESCHENBURG (1974) states that a more important question than control is to what extent the preferences of members are visible in a reliable way. Eschenburg presumably means that the decisions may not reflect preferences if their expression is insufficient. This weakness cannot be corrected by control.

The decisions of the members depend on the information available to them. »In all the questions which are connected with the evaluation of the importance or accuracy of business political operations, the manager can affect the decisions of the members by consciously selected information.» (ESCHENBURG 1974). This statement is similar to BARTLETT'S (1973) conclusions about the possibilities to influence voters by subsidized information in environment of uncertainty. The role of information turns out to be a

very important question in designing cooperative rules.

At the practical level most cooperatives' rules define the roles of internal institutions traditionally (Simon, 1979) such that the members define general goals and the administration define the means. But because the goals cannot be separated from earlier goals and means, the role of reliable information about the effects of earlier decisions and the present situation is very important. Of course, the ability of members to use information is important as well. These two questions are probably very close to UTTERSTRÖMS (1982) discussion about increasing complexity mentioned above. Thus, the complexity stems from the existence of subsidized information and the ability to use the information.

In large Scandinavian cooperatives where direct participation is either impossible or cannot be the only way to members' political influence, a board of representatives is elected. The representatives probably have more incentives to put more efforts to the decision making than an average member. The problem of representation has already been discussed.

LAURINKARI (1980) points out that the election of the board of representatives may increase democracy in the sense that a much larger proportion of members are found to participate in the election of representatives than participate in member meetings. According to Laurinkari, only the most active members participate in the member meetings and thus the preferences of passive members are not taken into account. However, the elections of representatives occurs much more seldom than member meetings.

The election of representatives compared to member meetings brings out the interesting concepts of »voice» and »exit» presented by HIRSCHMAN (1970). »Voice» means, for example, complaining in order to get the desired changes, while »exit» is leaving one organization for another. HIRSCHMAN

(1970) states that the voice option carries much more information than the exit option.

With elected representatives, voice in an election can be expected to carry much less information than the »voice« in a member meeting, because the casting of a vote transmits very little information. In addition, the absence of interaction between members in elections can lead to results different than those obtained in a case when the the opinions can become reinforced by others (cf. SCINNER 1970).

KUHN (1974) states that the board of directors or the management are the best performing groups in a cooperative. He emphasizes these groups' role in a cooperative. But as a counter balance, a control system has to be established to prevent excessive independence of management or the board of directors.

KUHN (1974) examines the occupation of the board of directors. He states that the board of directors should not be entirely composed of members or their representatives. Kuhn says that at a first glance, one would think that the small members would be more willing to take management responsibilities because large members would not want to ignore the management of their own operations. On the other hand, the significant lead in the access to the information is more important to the large members than to the small ones.

Kuhn states that despite definitely better capabilities, the large members are an unstable element in the cooperative board because of their permanent goal conflict with the cooperative. An especially difficult situation can also occur if there are few large members among many small ones. In this case, to secure their chairs, the management has to seek support among the small members, which in turn can lead to the exploitation of large members and thus, to instability (cf. OLSON 1965). Kuhn thinks that this situation can be prevented only if the election of the board of directors is not democratic, but allows large members to get the

position which correspond to their strategic importance.

For instance, in Finland the one member — one vote principle is included in the cooperative law. Exceptions to this principle can be made in cooperatives in which the majority of members are themselves cooperatives or other associations (HAKALA 1980). In these kinds of federated cooperatives the large first degree cooperatives can have more votes than smaller ones.

The influence of rules of the cooperative in shaping cooperative behavior is a difficult and relatively neglected area. No optimal solution for the tradeoff between optimal member influence (best possible preference expression and influence) and efficiency (costs relative to the benefits of the decision making system) can be found.

»If the process of decision making is insufficiently certified or entirely uncertified, a difficult trust crisis can break up in some participating individuals. This can lead into the appearance of uncontrolled surviving strategies. On the other hand, the designer of the rules can include sufficiently loose (dilatatory) and, after all, informational points into rules in order to break the head from conflicts as much as possible.« (KUHN 1974). By »loose, dilatatory« rules Kuhn means rules and restrictions in which there remains some room for interpretation according to the situation. The purpose of »informational points« is to explain reasons for some rules as well as possible consequences.

But isn't' it also a little dangerous to leave too much guessing to a person about what are the limits of the accepted behavior? Who is capable of interpreting these »loose« paragraphs? Loose rules can, according to Kuhn, slow down the speed of »action« and »reaction«. The violating behaviors should be controlled in their very early stages because »only one unscrupulous quarreller can cause significant disturbances among the peace-loving members so that in the beginning well cooperating members can start quarreling with each other.« (KUHN 1974).

Rules have a very significant impact on the performance of cooperatives. They define the criteria by which the interests are taken into account and how decisions are made and implemented.

The rules become more complex and more important when the number of members increases and/or the membership becomes more heterogeneous. One difficult problem with rules is trying to change them. It is probably a rather common problem that the rules lag behind the development of the cooperatives' organization and environment.

#### 4. The cooperative organization's external factors

##### The interest groups of a cooperative

No organization can be understood without putting it into the context of its environment. However, the interrelationships of organizations are so complex that almost the whole economy would be examined in order to evaluate all the effects (SHAFFER 1978). Therefore, for simplicity and relevance, concentration on the main interest groups or actors is usually sufficient.

PESTOFF (1982) presents the main interest groups which comprise the environment of Swedish farmers' producer cooperatives as shown in figure 8.

To this point we have concentrated on the connections between members and the cooperative organization. In this chapter the impact on member influence of three other factors presented in figure 8, individually and as a system, will be discussed. The meaning of member influence is in some instances extended outside the cooperative as well.

##### The influence of the market

The main influence of members on the cooperative occurs through the purchasing process. This influence is according to HIRSCHMAN (1970) the »exit» type of influence in which economies of scale are prevailing. The economies of scale are most important because decreasing the costs through collective actions can be considered to be the main reason for establishing the cooperative. »In principle, the internal transactions are not affected by the market in a cooperative, which is from another economic world, but the practical level cooperatives are almost everywhere involved with the market pro-

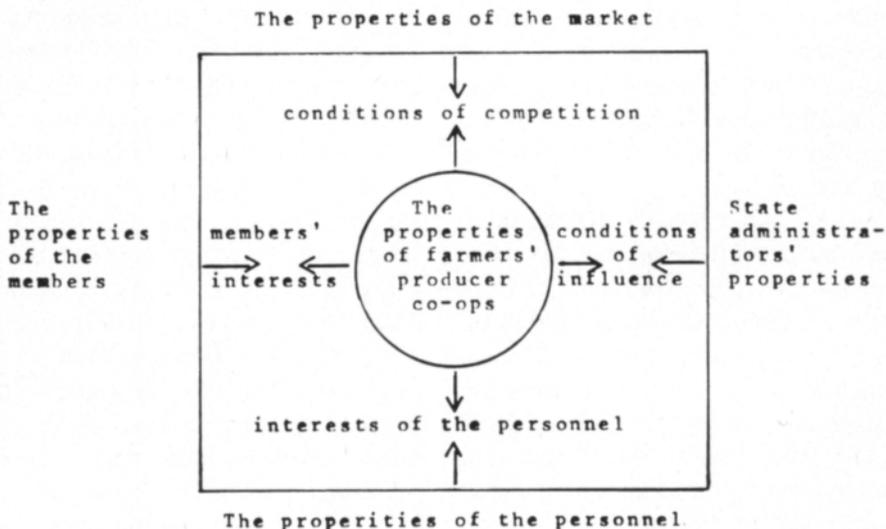


Fig. 8. The interest groups of a cooperative. (PESTOFF 1982).

cess.» (WIESE 1974). Despite Wiese's statement, it would be difficult to imagine, even theoretically, a cooperative in where the market would have no influence. Wiese perhaps means that in principle, the prices in transactions between the cooperative and a member (relative to the dividends) can be determined without the influence of the market.

If the cooperative were a closed system in which the members bought exclusively from the cooperative and the cooperative did not do business with non-members, the transactions would be considered as administrative. But usually there are other alternatives available for a member, and non-members also have a significant impact on the operations of the cooperative. Thus, the cooperative has to be competitive in its services in order to give economic benefits to its members. Even if no competition exists, the cooperative has to be competitive relative to possible individual behavior in the market.

Conflicts exist in maintaining the cooperatives' position in the market. On the one hand, economies of scale require solidarity among the members, while on the other, the members' option of purchasing outside the cooperative is needed to maintain competitiveness. It is difficult to define what is the right amount of members' »market inquiry buys» from outside the cooperative.

WIESE (1974) investigates the question of why cooperatives have different market shares, from rather insignificant to close a the monopoly, in different fields of operation. He states that although it could be expected (he does not explain why) that the cooperatives always would beat their competitors, this has not occurred. Wiese is looking for a stable, competitive balance between different types of businesses as well as in what circumstances the cooperatives can penetrate the market (which is assumed to exist) and survive.

Wiese presents the concept of »potential market service» by which he means the market's ability to serve customers in a situation

without cooperatives. Wiese does not describe what he means by bad potential market service. He mentions that it can be caused by imperfect competition. Wiese states that the benefits of a cooperative are larger the worse the the potential market service situation. Thus, the worse potential market service, the more likely the customers are willing to establish a cooperative. The cooperative activity and its intensity become, thus, a function of the potential market service.

If a group of customers are affected by an undesirable potential market service and even a proportion of the group establish a cooperative, the market service can be expected to improve. At first the improvement affects only members but after a while, non members as well. (WIESE 1974).

Wiese's reasoning behind this statement conforms to the idea of cooperatives as »competitive yardsticks» presented by Nourse (1922). The idea has been more widely accepted than the »counter» idea about the desirability of monopoly power of cooperatives presented by SHAPIRO (cf. COTTERILL 1983).

With the increasing effect of the cooperative on the market the market for the »old» suppliers declines. This increases the competition of non-cooperatives for a smaller market share and the prices must, at least temporarily, decline. This in turn improves the position of non-cooperative customers. (Pecuniary externalities, see SCHMID 1978).

However, after the adjustment process, during which some marginal suppliers probably exit, the situation could return to the undesirable position again if some new elements do not come to the picture. According to Wiese, these necessary elements include: (a) potential competition caused by the increasing number of members and the establishment of new cooperatives, (b) increasing intensity of competition in cases where farmers do not exclusively patronize the cooperative, (c) increasing intensity of competition

because of the cooperatives' business with non-members.

The decisive question is whether this process of increasing competition will continue and if so, how long? Will it lead, and when, to a stable balance between cooperatives and private enterprises? As was mentioned above an intermediate result, of the appearance of a cooperative is the creation of an improved market service to both members and non-members. Wiese mentions that the positive effects are small when a cooperative is small, and that the increase of cooperative operation brings along a deminishing marginal benefit to members.

In the absence of any counterpowers, the process of »cooperationalization» could continue until the marginal benefit reaches zero. Perfect competition would be reached. Wiese considers perfect competition an optimal market service situation. Perfect competition can be considered partly inconsistent with the idea of a cooperative as a form of vertical integration. If a cooperative could only compete on the basis of »business economics» price setting, would it be a cooperative anymore?

There are, indeed, costs involved in using the cooperatives. These costs increase along with increasing impact of a cooperative in the market. Wiese presents these constraints to expansion as:

1. Decision costs (relative to the benefits) to become a member start to increase.
2. Alternatives for members decline along with the increasing dominance of a cooperative in the market (opportunity sets, see Shaffer, 1980, p. 311).
3. Intensity and dynamism of competition are likely to decline.

Wiese's concludes that:

1. The market service of customers is improved by the activities of the cooperatives. With the increase of cooperative activity marginal benefits decline.
2. As a counterpower to the benefits of cooperatives, there are disadvantages: an obligatory agreement to pay membership fees and to take responsibilities in the

cooperative, the decline of alternatives, and the decline of the competition. From these follows:

3. The balance in the competition and, thus, the stability between the cooperatives and private enterprises is reached when the marginal benefits of cooperative activities are equal to the marginal costs.

What does all this mean to the member influence in cooperatives? Even in a situation of insufficient market service, the cooperative cannot be established without some kind of heroic behavior (PLATT, 1973). At the starting point and in the beginning the question of solidarity is emphasized. The economies of scale are perhaps not yet reached. Difficulties in expression of members' preferences probably do not yet exist.

When the cooperative grows it becomes more complex. At the same time, the organization develops from a single goal organization into a multigoal one (RØKHOLT 1982). Member influence and control becomes more difficult. Also the correcting effects in the market outside the cooperative begin to change it so that the relative advantage of the cooperative declines. Loyalty comes into the picture.

With the growth of the cooperative use of the voice option (HIRSCHMAN 1970) can become more difficult (even though it was earlier stated that growth itself does not have to be the cause of these difficulties). When the market service situation improves (becomes more close to perfect competition), the sensitivity of members to market changes increases and exercise of the exit option increases. The only possibility open to a cooperative is to start operating similar to other firms. The member influence shifts, at least partly, from voice to exit and subsequent pecuniary effects through the market.

Wiese is proposing that in a situation where the market is »corrected», the importance of the existence of the cooperative becomes less (cf. NOURSE 1922). Can a cooperative in such a case be left to be a firm among the others? The members would do

business with firms they find offer the best deals. The strength of cooperatives' correcting power would be left »sleeping» to be awoken if the market becomes worse again.

Although one strength of a cooperative is in preventing potential monopoly situations, it can become a monopolist itself. In this situation, instead of collecting monopoly profits, which is against the idea of cooperatives, the cooperative is likely to decline its level of services. This situation supports the contention that cooperatives should behave like other firms in a sufficient market service situation.

This analysis does not take into account societal benefits and costs which are invisible in profit calculations. These factors are briefly discussed later. Nor does it recognize the other aspects of the cooperatives as associations, although e.g. WIESE (1974) and KAARLEHTO (1956) consider these other things as rather unimportant. For instance, the questions of ideology and loyalty make the situation much more complex.

The ability of a cooperative organization to adjust to market changes would, in principle, be better than the ability of private enterprises. The cooperatives have an established system for expressing changed preferences as well as some power given by the solidarity to control members' desires. SKÄR (1981) states that because of the special characteristics of cooperatives, they should in principle be able to operate with less information than the private enterprises.

FLEISCHMAN (1974) compares the entrepreneurship in private enterprises and cooperatives. He finds that the establishment of a cooperative creates new positions for creative persons. There remains the difficulty of getting a creative person chosen for the management of a cooperative by the conservative members.

#### The interests of the cooperative personnel

The cooperative movement is a significant employer. In Scandinavian countries, the

farmers' cooperative movement can be considered one of the largest employers. For instance in Sweden, it is the largest employer (PESTOFF, 1982, p. 176).

We have already discussed the relations of the cooperative management to its employers. In this chapter, all cooperative personnel are considered.

It should be mentioned that in Scandinavian countries the nature of collective bargaining is different than in the US. The labor unions are established according to the occupation, not according to the employer. In a same firm there can be employers belonging to several bargaining associations; metal workers to one, secretaries to other. Labor unions negotiate with employer unions, not directly with employers. Thus, the cooperatives do not have special characteristics in collective bargaining. It has been stated that in the US the strike is much more powerful in cooperatives than in other enterprises, because members having their services interrupted put additional direct pressure on the attempts to end the strike.

Personnel's role in enterprises has been a common topic of the discussion in Scandinavian countries for the past 10 years. Discussion about »enterprise democracy» has even lead to legislative action in order to increase personnel's influence in their employers' decision making systems. Enterprise democracy would, at a first glance, be easily combined with other cooperative characteristics. The cooperatives should already be democratically governed. Member democracy and enterprise democracy have not been considered by cooperatives to be in conflict.

However, a cooperative is governed by its members according to the one member — one vote principle. By introducing the representatives of the personnel into the decision making system, this principle is affected. Dellenbrant (1982, p. 183) states that »cooperative democracy is based on members and their interests. Enterprise democracy is based on personnel and its professional organizations. Both variations of democracy

base themselves on different principles: one member — one vote and one employee — one vote.»

PESTOFF (1982) supports Dellenbrant's reasoning and states that there is a latent conflict based on different interests between these two groups. Pestoff believes that enterprise democracy can conflict with member democracy.

DELLENBRANT (1982) states that despite positive attitudes towards the inclusion of enterprise democracy in cooperatives, the practical implementations have been circumvented by appealing to the »special characteristics of cooperatives«. The problem of enterprise democracy is probably more difficult in producer cooperatives than in consumer cooperatives. PESTOFF (1982) also points out that there are some ideological differences which hinder farmer cooperatives from joining employer organizations.

DELLENBRANT (1982) believes, however, that despite potential interest conflicts and their possible development into real conflict, there is a real and outspoken will for cooperation between cooperatives and occupatio-

nal organizations. In many instances the common interests of these two movements have been emphasized. Dellenbrant recommends the definition of the areas in which either of these forms of democracies will be implemented. »The future will show if it is practically possible to separate the policy questions from other important questions in the enterprises.« (DELLENBRANT 1982).

### The social factors

The connections between the cooperative member influence and society are especially complex in countries such as the Scandinavian countries. SKÅR (1981) describes the problem area in a simple form similar to figure 9.

In Figure 9 it can be seen that an individual has in principal just three alternative ways for influence and types of participation decisions: the political, occupational and cooperational alternatives. As a means of influence, the political way can be considered the most indirect, and the cooperative one the most direct (measured by the number of

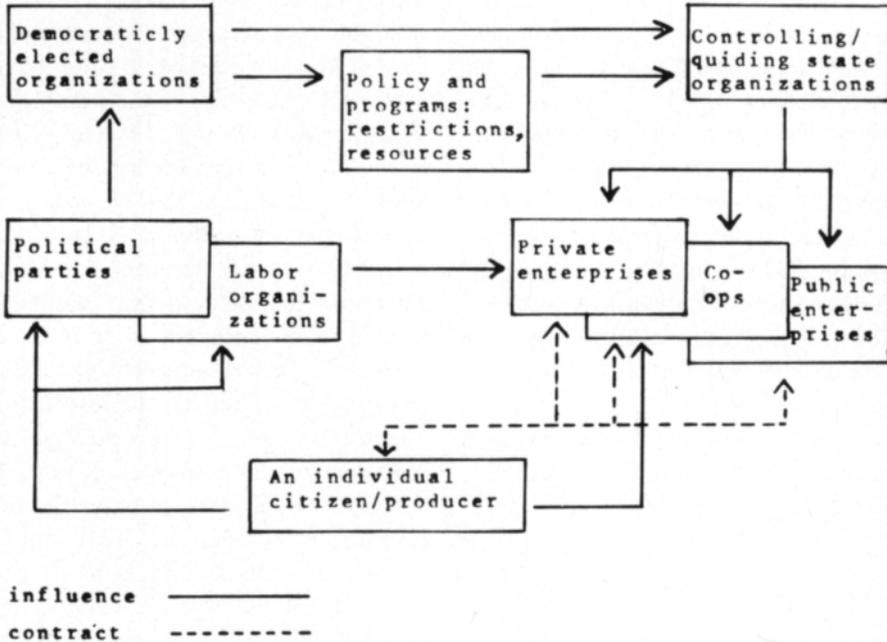


Fig. 9. The social structure and enterprises in a closed model. (SKÅR 1981).

institutions involved). Skår says that he is not stating that the most direct is the most effective alternative. The model does not take into account factors such as the time required for influence in various institutions. It also ignores the possibility of consumer influence, either individually or as a group, to the economic activities. One of Skår's conclusions is that the cooperative seems to be the only alternative in which the direct contact between participation decisions and exploitation decisions is possible.

According to SKÅR (1981) society can redesign the rules of a cooperative through legislation and, thus, control the behavior of the cooperatives. In Scandinavian countries there are not very many special requirements that cooperatives have to meet. But the cooperative can have bargaining power which affects all farmers. For instance, in Sweden the cooperatives have exclusive agricultural trade contracts (price and other rules) with the government.

The same situation occurs in Norwegian fishermen's cooperatives, where the cooperatives have the authority to negotiate with the government on behalf of fishermen. Thus, the cooperatives are conducting a social function in order to make sure that an industry is working in a proper way to satisfy the requirements society has given to it, and to make sure that the industry can survive in the long run.

The cooperatives can also have responsibilities such as the obligation to deliver and to take commodities. Co-ops are also used in organizing a desired consumption alternative. For instance, the cooperative retail outlets have, in a way, a special position in servicing the most remote rural areas in Finland.

This means that the cooperative is not just an instrument for members but also has social dimensions. This means that on the one hand there are some legislative actions which recognize the cooperatives as alternative economic organizations, while on the other hand the cooperatives have a possibility to make void some of the strongest ways of

market control (SKÅR 1982). An important question is then to what extent the members' and society's interests coincide.

The discussion above was intended to emphasize the strong, and even increasing, connection between cooperatives and the society in which they operate. RØKHOLT (1982) mentions that an organization cannot live without some support from its environment. The organization's (cooperative) social output determines to a great extent the support it gets from the society.

RØKHOLT (1982) states that despite the cooperative's two roles, as the interest organization and as a »traditional» actor in the market, the cooperative has a third role as a semi-official organization. This statement can be made in all the Scandinavian countries.

Røkholt refers to the situation in Norway (the situation is similar in other Scandinavian countries), and mentions the conflict between occupational organizations and the cooperatives' role as an interest organization. The farmers' unions want to be exclusively the interest organization of farmers.

Farmers' unions and cooperatives operate as independent organizations in Scandinavian countries. For example in Finland, farmers cooperatives are given preferential position by farmers' unions, and the relations between the two are quite close. But the unions have announced that it would be unfavorable to the farmers if the cooperatives attained a monopoly position.

With increased regulation in market in Scandinavia, cooperatives have gradually become more and more administrative and less interest oriented in their operations. Røkholt mentions the following reasons for the shift to the more administrative role:

1. The state and the occupational organizations seem to have identical interests that the cooperatives should function as administrative organizations — not as interest organizations.

The state has also found cooperatives to be good, already established organizations

for exercising state control. The farmers' unions want to be the organizations which carry the information upwards to the state but are willing to let the cooperatives be organizations for the top-down flow of information.

2. The cooperatives get support for a guaranteed market position which in turn supports the development of cooperatives as semiofficial organizations. Also the farmers themselves, through their occupational organizations, act to reduce the cooperatives' role as interest organizations.

Thus, the farmers' cooperatives may not have enough incentives to resist the desires of the state and farmers' unions because their position is supported by these organizations. The farmers may act as members of a farmers union against themselves as members in farmers' cooperatives and the independence of that organization.

It is difficult to say if the farmers need two interest organizations. If they do, what would be the defined role of each of them? If the role of farmers' cooperatives as interest associations is becoming less important because of the strengthened position of farmers' unions, is that role of a cooperative even important anymore? If not, the »original» idea of a cooperative needs modification.

However, if the cooperative organization as a means of preference articulation becomes weaker, it is more likely that the cooperatives are governed from upstairs, by public authorities. This can in turn lead into decreased »market service» fewer alternatives for farmers and decreased efficiency of marketing services. This question is not completely irrelevant in Scandinavian countries.

#### The cooperative and its environment

Pestoff's model of interest groups in cooperatives was presented earlier. A cooperative needs a balance between these interest

groups. If just some are emphasized (or de-emphasized), the cooperative easily changes its nature into another kind of an organization. PESTOFF (1982) states that in Sweden the farmers' cooperatives are directed in their operations toward social influence and market competition rather than toward member influence and personnel relations. The same kinds of statements have been brought out by several other Scandinavian cooperative researchers (TAURIAINEN 1982, RØKHOLT 1982).

The cooperative's role as an interest organization seems to be threatened. On the one hand, the cooperatives role as interest organizations has received competition from other, »specialized» interest organizations. On the other hand, the emphasized role as an economic organization, because of increased competitive pressures in the market, has increased the impact of environment on cooperatives, at the cost of member influence.

According to PESTOFF (1982): »When the cooperative organization becomes all the time further from its members, they become alien and lose their motivation for support and participation. When the members do not see any difference between their own association and private firms, they lose their willingness to show solidarity by delivering their products through the association.» Thus, when the members start acting as individuals instead of a group, the future of the cooperatives becomes questionable. Earlier it was asked whether the role of cooperatives had some value in itself after filling its role as a corrector of the market or as an interest organization.

Besides the discussion at the micro level, there are factors affecting member influence at the macro level as well. Concentration and specialization, as well as the increase in complexity are decreasing the members ability to conduct their organizations. According to PESTOFF (1982) the room for independent decisions in local associations has decreased along with the gradual shift of the decision making from the local level to the centralized

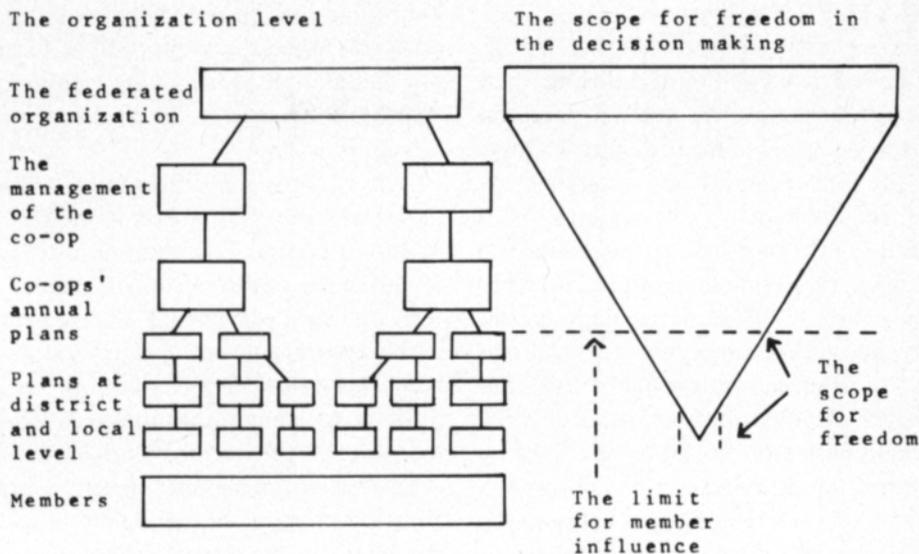


Fig. 10. The relationship between member influence, the level of organization and the scope for decision freedom in a producer cooperative. (PESTOFF 1982).

system. This development was considered necessary because of legislative market regulations, hierarchic decision making structure (which will have more success the more it can control the environment), sophisticated management methods and the technologic-economic development.

When more and more of the significant decision making will be either centralized or determined by competition, authorities, occupational organizations and other interest

organizations (at the highest central level), there exists less and less room for independent decisions by an individual cooperative organization. Pestoff describes the situation as shown in figure 10.

MOGELHØJ (1982) explains the situation in Danish dairy cooperatives as, »... in small dairies, the individual member has a possibility to have a relatively large direct influence in a restricted decision making environment, but in a large association, a member will

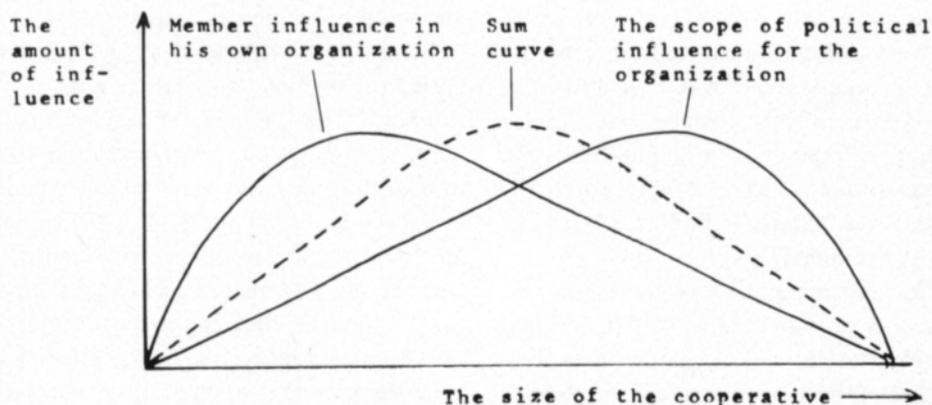


Fig. 11. The member influence in a cooperative and the political influence of the cooperative as a function of its size. (PESTOFF 1982).

have limited direct influence in a larger decision making environment.» Earlier in this paper the restricted ability of a member in a complex organization was noted as a reason for this development. According to PESTOFF (1982), despite technical and economic expertise requirements, »negotiations with authorities and other interest organizations etc. also are very complex, and require full-time specialists. Finally, the regulations considering agriculture are highly technical and strongly centralized. As a result of this kind of a system, the questions not decided by the central administrators are either restricted by their impact or meaningless, or both.»

Pestoff describes the relations between the direct member influence in a cooperative and the cooperative's political influence as a function of size as shown in figure 11.

If Pestoff means by »member influence» their influence as a group, and not just one member's relative share of influence, questions arise such as:

What do the members do with the possibility to influence in a small organization (the member influence curve above the political influence curve)?

Who is exercising the influence when the political influence curve is above the members influence curve?

### **Summary, conclusions and future research**

In this paper, the Scandinavian and part of the West German research on member influence in cooperatives was reviewed. The content of member influence was divided into three components: individual factors, the organization's internal factors and the organization's external factors. Each of these was examined.

Member participation and representation were discussed individually. Strict rational economic behavior did not seem to explain entirely the reasons for participation. Sociological factors such as status and »citizens duty» also seem important. Perhaps some

kind of feeling about belonging to a group, especially when the proportion of farmers in the population is declining could explain some of the participation in farmers cooperatives as well.

Representation becomes more complicated when a shift from direct to indirect representation occurs. The question of the representativeness of the elected officials becomes relevant. Two dimensions of representativeness were introduced: background and opinion representativeness. Both of these are difficult to maintain. Status seems to bring the elite of the membership to the board regardless of the member structure and socialization changes earlier opinions of board members to the extent where their backgrounds do not explain the content of board members' views.

Internal factors in the organization such as conflicts, the effect of the growth of the cooperative, and decision rules were discussed. The cooperative ideal of equal treatment of members was shown to be difficult to maintain because of the heterogeneity of interests of the membership. Rational behavior of individuals was shown in some cases to be in conflict with group interest in a cooperative. Interests of different members were in conflict where, for example, with one member — one vote, the strategic importance of different members varied. The question of giving a patronage dividend allocation or retaining capital for future operations was shown to cause conflicts to such extent that the competence of member meetings for deciding the dividend allocations became questionable. The superior ability of management to obtain and use information seemed to lead in some cases to situations where the members could behave against their own interests. The various chances for conflicts in a cooperative seemed to support the superiority of theories that explicitly recognize the existence of conflicts in these organizations over theories that assume a harmony of interests among all cooperative participants.

The growth of cooperatives brings new re-

quirements for maintaining member influence in the decision-making system. With the growth of cooperatives, member influence is affected by several new factors. The relative influence of one member declines, the membership becomes more heterogenous and the need for expertise because of the complexity of the cooperative operations becomes more important. It was stated that the size of the cooperative itself does not significantly affect member influence. This statement is of limited usefulness however, because of so many important factors are closely connected with the size of cooperatives.

One member — one vote is not enough to assure democracy and fairness in cooperatives. The rules define whose preferences are taken into account in a cooperative. The rules can set the guidelines for the behavior of various institutions and the procedures for controlling conflicts in the organization and for allocating dividends, but in a changing environment the members must delegate some decision-making authority to the board and management. In order to decrease decision making costs in the cooperative, the members have to accept some risk of the board and management acting against the members' desires. There are not only problems in designing the rules in order to assure that the decisions reflect the members' preferences but also in getting the preferences visible to decision makers.

There might be some new means for decreasing the transactions cost of member influence through the new information technology. The use of micro computers in members' preference articulation would be worth of a research. The management's role in respect to members would be an interesting task for a study considering the latest organization redesigns in most of the large cooperatives in Finland.

The external environment of a cooperative was presented as consisting of four main interest groups: members, market, personnel, and society. The importance of cooperatives in correcting the market service was men-

tioned. But the importance of cooperatives was shown to decline with the improvement of market performance. The role of cooperatives in a well-performing (competitive) market remained questionable.

Probably the greatest contributions of this paper and of the Scandinavian research on cooperatives come from the sections that consider the connections between cooperatives, their personnel, and society. The increase of the enterprise democracy, i.e. increased role of workers in the decision making of enterprises, causes some potential conflicts relative to the members' sovereignty in governing their cooperatives.

The importance of cooperatives in Scandinavian countries led us to introduce a third dimension of cooperatives, in addition to economic and interest association features, the semi-official nature of these organizations in Scandinavia. Cooperatives are given many societal functions to conduct and the society is anxious to exploit these organizations, which formerly were considered primarily interest-organizations of farmers. This is made easier because farmers themselves are decreasing the importance of their cooperatives as interest organizations by strengthening the position of farmers' unions.

The ideal of cooperatives can be expressed by the balance between the above mentioned groups (members, market, personnel and society). If some groups are overemphasized, the cooperative is in danger of changing its nature into another kind of organization. The role of cooperatives as interest organizations seem to be in real danger. The increasing effect of the market on cooperatives' conduct and the strengthened position of competing »specialized» interest and occupational organizations are decreasing the member sovereignty in decision making. The growth of the cooperative decreases the influence of individual members. However, the scope of the organization's decision making increases' with the growth. Thus, as the cooperative grows, a member is less able

to influence it, but when s/he can the decisions are likely to be more meaningful.

A conclusion from this review is that the critical evaluation of cooperatives has begun in Scandinavia, but the most important results are yet to come. The emphasis on the social connections of cooperatives in Scandinavian research adds a new dimension to the research conducted in the US. Many leading ideas in the research on cooperatives in the US, such as the heterogeneity of interests, internal conflicts and dividend allocation problems are also addressed by Scandinavian researchers. The results about the impact of the size of cooperatives were to some extent different. One reason for the differences was the different definitions used in considering the factors affecting member influence.

There is no doubt about the importance of cooperatives in Scandinavia, especially for farmers. But the actual performance of cooperatives, the possibilities for improved cooperative performance, and alternative institutional solutions to marketing problems, are not well-studied areas in Scandinavia.

In most cases the actual objectives of cooperatives are either similar to those of other firms or are in a non-measurable form. Sometimes the »amount of support by the members» is presented as a performance criterion of cooperatives. The measurement of this criterion is an almost impossible task. Fleischmann (1974) states that because of the lack of unambiguous performance measures, »The long-run increase in the sales volume of the cooperative is used as a substitute measure. If during a certain year the sales volume of a cooperative is more than that of its private competitors and if the cooperative has earned profits that allow it to continue at the same rate, one can conclude that the cooperative has provided its members better services than have other firms.» If the growth of the sales volume really is the most frequently used measure of the performance of cooperatives (and of their management),

this probably explains a part of the growth of cooperatives in Scandinavia.

There has to be some other incentives for farmers to join and patronize cooperatives. There are some research results about what kinds of farmers are likely to be members of cooperatives, but obtaining »the best deal» cannot be the only explanatory factor for patronizing cooperatives. There is some evidence that Scandinavian cooperatives have not always been able to meet the efficiency of private enterprises.

Research on the performance criteria for cooperatives from members', management's, and society's points of view is perhaps one of the most important but still neglected topics in cooperative research in Scandinavia.

Turning more to the empirical level of cooperative research, the effects of cooperatives on the Scandinavian market structure, especially in the food system, needs more attention considering cooperatives' importance in this field of economy. The work of NC 117 in the US would probably provide a lot of new theoretical ideas to aid in this examination.

In many of the studies reviewed above, the rules such as one member — one vote, dividend allocation according to patronage, the role of the member meeting as the highest decision maker, etc. were criticized. Although this kind of criticism has occurred long enough for response, no such response by the cooperative movement has been expressed. What is the reason for this?

The increasing number of relevant parties involved in cooperatives, the increasing heterogeneity of members, the increasing »competition» by other interest organizations such as farmers' unions and the increased tendency by others in society to try to use cooperatives for their own purposes, have become real challenges to the traditional cooperative ideal. Either more research on the ability of cooperatives to meet these challenges in its traditional form or research on

the possible modification of the traditional cooperative principles seems necessary. One of the greatest problems in the research will be the power of large cooperatives and their

consequent ability to discourage researchers from conducting a critical analysis of the pros and cons of cooperatives in various situations.

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## SELOSTUS

### Jäsenten vaikutusmahdollisuudet osuuskunnassa

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Tässä katsauksessa tarkastellaan pohjoismaissa ja osaksi Länsi-Saksassa ilmestyneen kirjallisuuden pohjalta jäsenten tahdon toteutumismahdollisuuksia osuuskunnissa. Katsaus on muotoiltu tukemaan Yhdysvalloissa suoritettavaa osuustoimintatutkimusta.

Jäsenten vaikutusmahdollisuudet osuuskuntaansa jaetaan kolmeen osatekijään: yksilöllisiin tekijöihin, osuuskuntaorganisaation sisäisiin tekijöihin ja osuuskunnan ulkoisiin tekijöihin. Yksilölliset tekijät jaetaan osallistumiseen, edustukseen ja edustuksellisuuteen. Osuuskuntaorganisaation sisäisinä tekijöinä tarkastellaan konflikteja osuuskunnissa, kasvun vaikutuksia organisaatioon sekä osuuskunnan päätöksenteon sääntöjä. Osuuskunnan ulkoisista tekijöistä tarkastellaan jäsenten ohella tärkeimpien intressenttiryhmiä, markkinoiden, henkilökunnan ja yhteiskunnan suhdetta osuuskuntaan.

Osallistuminen osuuskunnan toimintaan ei näytä olevan selitettävissä yksin rationaalisen ekonomisen käyttäytymisen avulla. Sosiologiset tekijät, kuten status ja »kansalaisvelvollisuus» ovat merkittäviä selittäjiä. Luottamushenkilöiden edustuksellisuus riippuu sekä henkilön taustan että mielipiteiden samaistumisesta valitsijoihin. Varsinkin isoissa osuuskunnissa on ongelmia saada yksittäinen jäsen tuntemaan, että hän saa osallistumisestaan koituvia vaivoja suuremman hyödyn. Uusi informaatioteknologia saattaisi helpottaa tätä ongelmaa joiltakin osin.

Mies ja ääni -periaate ei näytä takaavan demokratiaa ja oikeudenmukaisuutta osuuskunnassa. Näin on ennenkaikkea osuuskunnissa, joissa jäsenten tavoitteet ja heidän strateginen merkityksensä osuuskunnalle ovat kovin erilaiset. Jos esimerkiksi »suuret» jäsenet eivät saa strategista merkitystään vastaavaa vaikutusvaltaa

osuuskunnassa, he ovat taipuvaisia jättämään osuuskunnan, ja ehkä perustamaan kilpailevan organisaation. Myös osuuskunnan koolla on merkitystä jäsenten tahdon toteutumiseen. Koon kasvaessa toiminta monimutkaistuu, jäsenten mahdollisuus hallita informaatiota suhteessa ylimpiin luottamushenkilöihin ja varsinkin ammattijohtoon heikkenee. Ammattijohtoon mahdollisuudet manipuloida jäsenpäätöksiä kasvavat.

Osuustoiminnan suurimmat edut on nähtävissä markkinoilla, jotka toimivat syystä tai toisesta huonosti. Markkinoiden toimivuuden parannuttua osuuskunnan menestymisen ehtona näyttää olevan toimiminen samoin periaattein kuin muutkin yksityiset yritykset. Osuuskunnan merkitys jäsentensä etujärjestönä vähenee myös sitä kautta, että mm. ammattiyhdistykset ovat ottaneet ajaakseen paljon sellaisia tehtäviä, jotka ennen kuuluivat osuustoiminnalle.

Yhteiskunnan vaikutuksen lisääntyessä markkinoilla kaikissa pohjoismaissa, osuustoiminta on vähitellen saamassa vähenevän eturyhmäroolinsa sijaan roolin puolivirallisena organisaationa. Vaikutusvaltaisten etu-

järjestöjen ottaessa osuustoiminnalta etujärjestöroolin ja yhteiskunnan havaitessa osuuskunnat hyväksi yhteiskunnallisen kontrollin välineiksi, näillä organisaatioilla on yhdensuuntaiset intressit edistää osuustoiminnan virallistamista. Toimialoilla, joilla osuustoiminta on hallitsevassa asemassa, tällainen kehitys on helpommin toteutettavissa.

Henkilökunnan vaikutusmahdollisuuksien lisääminen yrityksissä on näennäisestä ongelmattomuudestaan huolimatta osoittautunut vaikeaksi ongelmaksi osuuskunnille. Osuuskunnan periaatteisiin kuuluva jäsenpäätösten suvereenius on uhattuna silloin, kun henkilökunnan päätösvaltaa lisätään.

Jotta osuustoiminnan edut markkinainstitutiona tulisivat täysimittaisina hyödynnetyiksi, tarvittaisiin mittavaa tutkimusta siitä, millaisia toiminnan tuloksia eri sidosryhmät odottavat osuustoiminnalta ja miten nämä tulokset mitataan. Jos toimintaa voidaan mitata ainoastaan osuuskuntaan teoreettisesti soveltumattomilla yksityisyriyten liiketuloskäsitteillä, osuustoiminta pakotetaan luopumaan ominaispiirteistään.