

GUEST EDITOR COMMENTARY ON AGRICULTURAL COOPERATIVES

Historical tensions, institutionalization, and the need for multistakeholder cooperatives

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In “Democratizing a Rural Economy,” Mooney (2004) suggests that for future generations, social scientists may need to give some greater emphasis to bequeathing not only a sustainable environment, but also institutions that can set a forum for democratic struggle and voice. As economic entities, agricultural cooperatives may be among the few institutions in rural areas retaining a semblance of economic democratic governance. However, institutionalization processes have left many of these co-ops in a challenged position to sustain their own democratic ethos. The nature of

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these losses is difficult to understand without historical texture and outside a tension frame of reference. This essay will define co-op structure in a manner that specifies some of these tensions and their historical context and pressures, and make suggestions for a more inclusive and possibly more resilient cooperative alternative in the form of multistakeholder cooperatives. This latter organizational form may be able to set a community development template for addressing various social, economic, and ecological needs, with a more inclusive and hopefully enduring democratic organization.

Definition

Historically, agricultural cooperatives have been structured around at least three principles:

- (1) *The User-Owner Principle*: Those who own and finance the cooperative are those who

- use the cooperative;
- (2) *The User-Control Principle*: Those who control the cooperative are those who use the cooperative; and
 - (3) *The User-Benefits Principle*: The purpose of the cooperative is to provide and distribute benefits to its users on the basis of their use. (Dunn, 1986, p. 85)

Other versions of these principles exist, particularly those of the International Cooperative Alliance, though the above three perhaps best highlight cooperative distinctiveness from their main organizational competitor, investment-oriented firms (IOFs).

Cooperative Difference from IOFs

In linear logic, if somewhat simplistically, investors with money seek to make a return on that money by investing in an activity that will return a profit, thereby (hopefully) ending up with more money. Members (or potential members) of a cooperative need a service or a product. They collectively organize to provide that product and/or service. The organization must achieve some financial margin over costs in order to continue to finance and provide a flow of services through time. In investment firms, the investor-owners have little connection to the business activity of the firm. If use is made of the activity, it is only on an incidental basis. For cooperative patrons, the activity of the organization and their use of that activity are central to their relationship with the organization (Gray, 2004). In an investment firm the internal logic is not use (as in a cooperative) but return on investment (roi).

Historical Context, Tensions, and Losses to Democratic Ethos

The core of the agricultural cooperative community was formed in the late 19th and early 20th centuries as an offset to investment capital interests, both externally to oppose monopoly/oligopoly (seller) and monopsony/oligopsony (buyer) power, and internally to strike an organizational form oriented to (1) “use” rather than short-term “return on investment” (roi); and (2) governance by “one member, one vote” rather

than aggregative stock ownership. The opposition of these two organizational forms, as played out in market dynamics, produces a series of tensions akin to a see-saw that can be tipped in one direction or another, given the nature of external pressures on cooperatives (e.g., concentration and centralization of farming and agribusiness firms, global sourcing and selling of products). Three of these tensions will be discussed here: (1) participation and democracy versus efficiency and capitalism, (2) localism versus globalism, and (3) production versus consumption (Gray, 2013). How cooperatives lose democratic character as well as local embeddedness will be highlighted, followed by a comment on the possible advantages of a multistakeholder structure in creating an organization-community template for broader democratization. Tensions here are to be understood as opposing but simultaneously existing tendencies, and not as either/or, or mutually exclusive categories.

Participation and Democracy/ Efficiency and Capitalism

As the predominant business form in the larger socio-political economy, IOFs create a context of pressure on cooperatives that privileges the needs of capital and short-term roi, rather than the needs of people as articulated in cooperative use (i.e., user-ownership, user-democratic control, and user-benefits). From an IOF perspective and for continuing corporate survival, capital is managed in as fluid or “unencumbered” a manner as possible. Intense competition and resultant needs for investment, returns on investment, and growth are central to continuing operations, and become manifest in, among other factors, strategies of industrialization, global sourcing and selling, corporate consolidation, market concentration, and technological intensification. Complex bureaucratic organizations (as a secondary logic) emerge out of these dynamics for controlling and directing capital among multiple locations and products, with resultant emphases given to centralized decision-making and top-down flows of authority.

Fairbairn (1999) argues that in the face of these larger dynamics, many cooperatives have sought to survive by “expanding, merging, rationalizing” (p.

95), becoming large bureaucratic organizations in their own right. These processes have resulted in tendencies that can shift cooperatives away from economic democracy rationales and toward IOF models that emphasize the needs of capital. Such pressures have various impacts, including:

- (1) There may be bureaucratization and organizational shifts away from a grounded cooperative logic, or a logic that emphasizes local responsiveness, decentralized decision-making, and local participation, to one that favors centralized decision-making and top-down lines of authority that have the effect of distancing cooperative members from decision-making centers of the organization.
- (2) Due to the added complexities of operating in a global economy as well as managing bureaucratic organizations, management frequently holds more information in such areas as marketing, finance, and law than members and directors. This can result in an asymmetry of information between managers versus members and directors, creating potentials for management to privilege their own performance expectations for “grand visions,” various perks, job security, and high salaries as well as management strategies that parallel IOF strategies. These strategies are often accompanied by a de-emphasis, or displacement, of grass-roots member needs and member voice (Sousa & Herman, 2012).
- (3) Pressures also occur to shift the organization away from the equality of one-member, one-vote governance in favor of proportional voting, such that each member holds one vote for their membership, and proportionately more votes based on the amount of business they transact with the cooperative (similar to aggregative capital ownership in IOFs).
- (4) A fourth area of de-democratization involves the organizational conversion of cooperatives from firms organized around the logic of “use” to investment oriented

firms organized around the logic of roi. This has been the case with California Olive Growers, Calavo Avocados, Goldkist, Capital Milk, America Rice, Dakota Growers Pasta Company, Saskatchewan, and Manitoba, and Alberta wheat pools, among others. Each of these firms once functioned as an agricultural cooperative and was later converted to an IOF.

Earnings are necessary to meet the financial needs of a cooperative organization (as with any economic organization). To continue through time to provide service to members organized around use values, the cooperative must not only provide a democratic member institution but an earnings institution. Both are needed. However, care must be taken to prevent a predominant tipping toward roi-like imperatives (as reviewed above). To do otherwise is to render impotent the participatory and democratic aspects of the organization (Gray, 2013).

Local Embeddedness/ Geographic Expansion

Given their user-ownership structure, cooperatives are as geographically embedded as their membership. In the case of farm cooperatives, since ownership is held by farmers, most have a strong element of local geographic embeddedness. However it cannot be overemphasized that the predominant organizational and competing form in the larger economy is the IOF. While geographic embeddedness can serve a long-term function of protecting member-users and their communities from the impacts of recessions and capital flight from a region, from the standpoint of roi logic, local embeddedness is an unnecessary constraint that interferes with mobility and the efficient application of capital (Mooney, 2004). In response to competition with roi multinationals and in pursuing growth and profitability, many cooperatives have expanded geographically — even globally in the case of such cooperatives as Cenex-Harvest States and Land O’Lakes. While this expansion may add markets, it can also result in a loss of local uniqueness. Both globalization and bureaucratization tend to require standardization of product and therefore often a loss of locally identified attributes and local

identity. Further, geographic expansion itself adds another layer of distance — physical distance — between members, member governance, and cooperative decision-making. This distance can then tip a member/ management tension toward management prerogatives and possibly the needs of capital, even at times precipitating rationales for the closing of local facilities.

While cooperative character results in a certain natural embeddedness connected to membership, the various demands of IOF competition, globalization, bureaucratic complexity, the “efficient” application of capital, and CEO managerial culture often call for a “freeing-up” and “disencumbering” of capital from locally “constrained” attachments. Many agricultural cooperatives have tended to adopt growth strategies that parallel these investment models. Like the tensions between efficiency and participation and democracy and capitalism, cooperatives need some degree of both localism and globalism in terms of market development; but globalist approaches are advised to be taken with caution since an overemphasis on marketing and sales expansion can result in a loss of local voice and local identity, attributes nearly impossible to obtain without geographic embeddedness.

Production/Consumption

The current organization of agriculture tends to treat human and environmental costs as externalities. As organized predominantly around IOF logic, there is little opportunity to bring these costs inside business decision-making, beyond direct government regulation. This is due in part to the severe separation of production and consumption interests, which function at competitive and antagonistic poles in the market place. Yet they are functions that presuppose and anticipate each other. There is no consumption without production, and no economic production without consumption.

Historically there has been consideration of combining both these functions within single organizational arrangements. In Voorhis's (1961) concepts of a cooperative commonwealth, he stated “...if a considerable proportion of farm crops [and food] could be sold directly by farmer-owned enterprises to consumer-owned ones, the

spread between what farmers receive and what consumers pay would amount simply to the costs of processing, transportation, and sale” (as cited in Mooney, 2004, p. 86). Improved returns for farmers and lower prices to consumers might be a possibility.

However, perhaps more importantly, a cooperative commonwealth arrangement (i.e., collaboration between agricultural and consumer cooperatives) might provide a platform for internalizing various human and environmental costs. This would be different from the predominant system that insistently externalizes these costs in struggles over price and market advantage within an organizational context that requires a maximization of short-term roi. These latter competitive and investment logics are of singular interests, shaped by the voices of aggregative ownership capital.

Member-users of collaborative agricultural and consumer cooperatives hold potential to internalize what is externalized under a roi rationality, via a broadening of democratic voice possibilities (Friedmann, 1995, 2005; Mooney, 2004). Land use, environmental, and health concerns might no longer be externalized by the default of organizational design, but rather internalized with a more inclusive structure. The emergence of community supported agriculture, farm-to-school, and farm-to-institution agriculture, farmers' markets, and cooperative farm stores, though on an incipient level, demonstrates the viability of this linking. Their development also anticipates the possible viability of multistakeholder cooperatives as an alternative organizational form.

Multistakeholder Cooperatives

Historians and political economists Gar Alperovitz (2013) and Richard Wolff (2012) in their respective books *What Then Must We Do* and *Capitalism Hits the Fan* both suggest the formation of cooperatives to address larger systemic problems of unemployment, economic stagnation, and environmental degradation. Their critiques are profound though undeveloped when considering the institutionalization processes of cooperatives as outlined in this commentary. Competition with IOF multinationals and various tendencies toward organizational complexity, asymmetry of information between

management and members, globalization and accretion of local embeddedness, pressures for shifts toward proportional voting and away from one-member, one-vote governance, and sheer conversion of cooperatives to IOFs are some of the factors that thin out the vitality of a cooperative economic democracy, and democracy in rural areas. (This writer, however, suggests that even with the institutionalization processes that have occurred, if one compares cooperatives to IOFs, cooperatives look better — particularly when considering the embeddedness of respective ownership structures and the benefits and services that flow back to a local membership, relative to the absentee stock ownership and concentrated structures typical of IOFs (Craig, 1993)).

Both Alperovitz and Wolff argue for a greater economic democratization. Multistakeholder cooperatives offer potential for broadening democratic voice beyond the immediate member-users of cooperatives. A stakeholder is anyone who affects and/or is affected by the organization and may include such interests as owners, investors, managers, customers, users, employees, lenders, community residents, and community organizations. Any organization has multiple stakeholders, and even firms predominantly organized to make a return on investment cannot totally ignore these interest groups (Freeman, 1984).


A multistakeholder cooperative typically has at least two classes of members, with each group allotted a set number of seats on a board of directors. Boards of directors are elected by their constituencies typically to participate in policy-making, strategic planning, and direction. The number of board seats held by each group may vary by the centrality of their respective functions in the organization (Lund, 2011). These activities can involve deciding what products and services to be involved in, what markets to sell to and buy from, what major capital outlays to make, whether the organization should expand, close, or move from the local area, as well as what general manager or CEO to hire or fire (Leviten-Reid & Fairbairn, 2011).

They are prevalent in Quebec and Ontario as well as Italy, and are growing in number in the U.S. (see Margaret Lund's 2011 work, *A Multi-stakeholder*

Cooperatives Manual); they are not free of criticism, however (Lindsay & Hems, 2004; Munkner, 2004). These latter authors predict that decision-making will be so cumbersome due to having so many self-interested actors that it will either convert to a single stakeholder model (an IOF firm) or it will close. However, Leviten-Reid and Fairbairn provide evidence that this has not been the case. Often members join for larger community reasons that involve not only their own particular job interests or access to a market or a product, but also issues of unemployment, rural outmigration, environmental quality, and the well-being of the larger community. These larger socio-economic and ecological goals often produce greater involvement, participation, commitment, and trust, with resultant organizational resilience. Leviten-Reid and Fairbairn report from two case studies that “difference in opinion served to enrich discussions during meetings and that divergent opinions were ‘assets that kept the organization moving along’” (2011, p. 30).

The broadening of democratic voice to different stakeholders, *with their involvement in the organization*, may provide a sufficient populist voice to offset the institutionalizing processes described in this paper. Unlike the singular rationality of IOF firms, multistakeholder cooperatives may be able to better address various human and environmental costs by internalizing the various relations of use in terms of production, ownership, investment, consumption, and benefits as well as costs (from a broader community perspective).

Alperovitz speaks of alternative forms of ownership, e.g. credit unions and various forms of cooperatives, as representing a possible “pre-history.” He suggests that while some cooperative forms may currently be in fragile or early stages of development, they may gain much greater ascendancy if current socio-economic and ecological conditions continue or worsen. The incipient but rapidly growing initiatives of farm-to-school and farm-to-institution agriculture, community supported agriculture, cooperative farm stores, and farmers’ markets may provide a methodology that brings production and consumption together in a more collaborative way. If they come together in a context of multistakeholder cooperatives, they

could bring larger community energies and commitments as well. If we design organizations with use and democratic characteristics, we might be better positioned as a society to bequeath to future generations both organizational models and organizations themselves that can realize longer-term sustainability imperatives (Gray, 2013). 

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