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Cooperative Conversion and Restructuring In Theory and Practice

Abstract

This report is intended to develop the outlines of a sociological theory of cooperatives. This objective is accomplished by: 1) critiquing neoclassical economic analyses of cooperative conversions, (restructuring, acquisition, or sale of agricultural cooperatives such that an investment-oriented firm is created in its place), 2) examining historical data on cooperative restructuring generally and conversions as a subset of this data and 3) developing a theoretical approach to a sociology of cooperatives, that is inductive and retains cooperative tensions (e.g. democracy versus economy, local versus global).

Keywords: Cooperatives, sociological theory and conversions

Cooperative Conversion and Restructuring in Theory and Practice

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Preface

Ideally, theory development and practical development continuously inform one another, each providing feedback so each can progress and deepen. Most cooperative theory development has occurred in the area of neoclassical economics. While a powerful mechanism of analysis for generic investment firms, the approach is deductive and non-historical. It also tends to analytically homogenize goals and objectives. Cooperatives are complex organizations that emerge out of historical circumstances with complex economic and sociological goals. This report demonstrates the narrowness of a neoclassical analysis, by examining the cooperative conversion phenomenon. It then develops a sociological approach to cooperative analysis that retains various tensions and contradictions within cooperatives, while considering various sociological and historical influences.

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Highlights

This report is intended to develop the outlines of a sociological theory of cooperatives. This objective is accomplished by: 1) critiquing neoclassical economic analyses of cooperative conversions, (restructuring, acquisition, or sale of agricultural cooperatives such that an investment-oriented firm (IOF) is created in its place), 2) examining historical data on cooperative restructuring generally and conversions as a subset of this data, and 3) developing a theoretical approach to a sociology of cooperatives, that is inductive and retains cooperatives' tensions and internal contradictions, and is presented in contradistinction to a neoclassical economics approach.

Cooperatives are multi-dimensional, contain multiple values and objectives (including contradictory ones), and emerge out of historically specific circumstances. The most recent theory development of cooperatives, accomplished in the field of neoclassical economics, tends to be unidimensional, non-historical, and deductive.

Both neoclassical economic empirical studies and theoretical conceptualizations are used to explain conversions.

Various empirical studies focus on the economic motives of individual investment, including investment incentives that may be derived from cooperative business success. Excluded from the analyses are such other economic interests as those embedded in farm families and communities. Non-economic motivations are not allowed into the analyses.

Theoretical arguments tend to be organized around understanding of cooperatives as "pacemakers" or as having temporary "yardstick" functions that fix malfunctioning markets. Given the deductive nature of these arguments, these conversion theories tend to miss the boom-and-bust character of agricultural markets, as well as their historical tendency toward consolidation and oligopolization (concentration). Conversion arguments that understand cooperatives as "yardsticks" and "pacemakers" tend toward historic meaninglessness, because cooperatives must become a permanent part of the booms and busts, and as a countervailing force against continuing consolidation and oligopolization of the market.

Neoclassical approaches tend to model cooperatives in the image of investment firms, force fitting them to the model as if they were an intermediate and less advanced organizational type.

Cooperatives are different from IOFs in their basic organizing principles, means- and-ends rationality, and their inherent diversity of interests. Applying investment models to cooperatives obscures this diversity and these differences. Cooperatives pursue a variety of goals, some of which may be in conflict with one another. A cooperative may meet multiple goals, but no single one completely.

To some extent in neoclassical analyses, the act of cooperation itself is a problem to be explained. This occurs because the predominant focus of these analyses is on an abstract, self-interested individual pursuing a single goal, e.g. to maximize a return on investment. This individual is also assumed to be in competitive relationships with others. "Cooperative" behavior tends to lie outside of the neoclassical framework.

Unlike neoclassical economics, (as well as investment-firm models of analysis), sociological and institutional economics do not give a predominant focus to an individual actor (or an individual enterprise). Rather, sociology focuses on the interaction between two or more individuals and to the character of that interaction. This may be one of competition but, may also be characterized by conflict and/or cooperation.

A sociological (and institutional economics) approach can more readily focus on issues of power and inequalities in assets in specific historical interactions. Cooperation is less problematic for the sociologist. The development of cooperatives is more easily understood as a response to enduring, unequal power relationships in the booms and busts of an agricultural marketplace.

Sociology tends to recognize that in actual concrete reality, a plurality of values and objectives are being pursed simultaneously by most people. Some of these interests may be in conflict. Neoclassical economics tends to focus on the pursuit of specific economic interests and to exclude other interests from analysis.

Analyses are scientifically sound if they represent all or a representative sample of potential cases for conversion. The specific economic analyses of conversions reported here failed to consider non-events, i.e., cooperatives with market values greater than their book values that did no convert.

Rather than analyzing case studies, a more comprehensive assessment of conversions can be made by examining restructuring events generally. The data show that during the last 10 years, the most dominant form of restructuring has occurred entirely within the cooperative sector. More than one-third (36.6 percent) of the restructuring (consolidation, merger, alliance, joint ventures, acquisition) has occurred between cooperatives and not between IOFs and cooperatives. Nearly one-quarter (23.2 percent) of these events involved the expansion of existing cooperatives. Various forms of structural interaction between cooperatives and IOFs (joint ventures, strategic alliances) constituted 15.3 percent of restructuring events. Less than 5 percent (4.8 percent) consisted of a full conversion from a cooperative to an IOF. The frequency of cooperatives acquiring IOF assets was more than three times as common (16.6 percent) as IOFs acquiring cooperative assets.

While neoclassical models of the firm expect successful cooperatives to be purchased by IOFs, the data suggest that successful cooperatives are more likely to expand their own enterprises, form alliances and/or mergers with other cooperatives, or acquire IOF assets.

These theories that suggest conversion in their subtext may in fact be promulgating conversions, rather than providing neutral studies of them. Conversion recommendations become an artifact of the orientation itself. The neoclassical (and investment firm) modeling of cooperatives is in its approach deductive, non-historical, and one-dimensional. It is not designed to include multidimensional and opposing tensions that can be understood and observed inductively from a particular historical context.

A sociological theorization presented in this report complements the single dimensionality of neoclassical economics. Four cooperative and societal tensions are presented as historically and inductively derived: 1) democracy versus capitalist economy, 2) production versus consumption, 3) local versus global, and 4) traditional versus new social movement characteristics.

Democracy versus capitalist economy: Cooperatives are both economic and political (democratic) organizations. The principles of democratic governance give priority to collective use of the cooperative for service (broadly defined) versus its use as a mechanism for individual investment. Pressures upon cooperative democracy can exist with 1) a management predominantly oriented to investment logic, 2) an organization that becomes so bureaucratic that little participation can occur, and 3) with financial conversion to an investment firm. A cooperative that makes no margins will not reproduce itself to provide a service. Democratic considerations may slow or complicate these earnings. However, to rid the organization of its democratic aspects will fragment its definitional characteristics. Democracy versus economy is an inherent part of cooperative organizational definition. Current restructurings test this tension, with some stakeholders seeking to eliminate it by pushing the organization into an investment orbit, rather than contending, adapting, and strengthening it.

Production versus consumption: Cooperatives function in a marketplace organized around a fundamental tension between production and consumption, and producers and consumers. The paradox is that this antagonism is also a relation of interdependency in which these interests can be viewed as inter-connected. This history of the cooperative movement reflects an interest in overcoming this division, e.g., "development of a cooperative commonwealth." New social issues organized around food and production--human health, food safety, environmental issues, land use, community sustainability—suggest a need for integrating (or regulating) food and fiber production and consumption interests. The cooperative has the potential advantage of providing a middle course of regulation, between the pure economic sphere (market regulation or a private corporate regulation) and the public sphere of State regulation. Cooperative regulation could entail control by producers and consumers in economic organizations (cooperatives) with internal political structures that are democratized. The potential synthesis of these spheres—production and consumption—is a cooperative advantage over IOFs. IOFs tend to exclude larger social, ecological, and community costs, and interests, making these organizations ill-designed to internalize and resolve larger societal problems. Production and consumption (producers and consumers) are in some respects in opposition. The retention of this tension in a cooperative form could provide a democratic mechanism for resolving some of the more troubling societal difficulties.

Local versus global: Cooperatives function in an increasingly global economy. However parallel and in some ways contradictory developments exist that give priority to local needs and demands, i.e., localization. The equity retention principle in cooperatives functions to tie the organization to a particular geographic place. From the standpoint of capital mobilized for investment, this may appear as an unnecessary and unwanted constraint. From the standpoint of cooperative capital, it is a way to prevent capital flight from local areas and into powerful global movements that shift value to high-potential (geographic) investment points. The local ties of cooperatives also create the potential for local knowledge and innovation in the face of these same globalizing influences and pressures. Globalization tends to homogenize regional differences, push products and service toward standardization, and eliminate unique local qualities. The global and local tension points in the cooperative demand an expression of competitiveness without loss of local connection and commitment.

Traditional and new social movement: Agricultural cooperatives have been organized around production and farmer issues to retain value on the farm and to maintain financial solvency. In these respects, agricultural cooperatives are fairly traditional in their pursuits of particular class (farm) interests. New social movements are oriented to increasing and generally giving priority to democratization in civil society. The basic principles of user ownership, user control, and user benefits—in the context of deepening societal interest in democratic relations—brings new social movement aspects to these more traditional organizations. It also brings greater visibility to tensions between participation and bureaucracy, and member grass-roots interests and managerial expertise. The tensions are embedded in cooperative organizations. Their resolution, rather than a movement and tradeoff between them, would signal the end of the cooperative organization.

This report contends that conflicting interests, values, and objectives exist within cooperatives. To eliminate, or to think about and analyze cooperatives as if these tensions don't exist, denies central and fundamental aspects of cooperative organization. The acceptance and acknowledgement of these tensions can open up cooperatives to greater overall effectiveness and adaptability without sacrificing several of their defining characteristics.

Cooperative Conversion and Restructuring In Theory and Practice

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I. Introduction

This report is concerned with the restructuring of U.S. agricultural cooperatives, and whether this reflects a movement toward their conversion to investor-oriented firms (IOFs). Recent historical trends in restructuring will be examined to evaluate the actual extent of cooperative conversion.

These developments will be used to consider the relationship between cooperative practice and theory. Ideally, theoretical and practical development should continuously inform one another, and provide feedback that enables both to progress as evenly as possible. When cooperative practice moves ahead without regard to theory or when theory moves ahead without regard to the actual practices of cooperation the basic principles of cooperation can be endangered.

This report argues recent theory has developed with too much independence from the actual practices of cooperatives and cooperators. Thus, the cooperative "conversion problem" may have become overstated.

Further, the extent to which conversion has occurred may, in fact, reflect this very separation of theory from practices. The conversions, themselves, may have been informed by, or be an effect of, a theory of cooperatives that fails to resonate with the definitional principles of cooperation. Much cooperative theory contains assumptions that are not grounded in the complex logic, the multiple values, broader--though at times conflicting--interests and "common sense" that underlies cooperatives as they actually function in everyday life.

This report suggests that the theory of cooperation is increasingly accomplished primarily within the framework of neoclassical economics. This model has eclipsed the earlier institutional economics approaches by which cooperation had been guided. This distancing of cooperative theory from actual behavior is inherent in the deductive logic of neo-classical economics. The theory tends to assume a unidimensional motivation to behavior and decision making, and then moves from these abstractions to examine actual conditions.

This tends to restrict observation to only that behavior which is covered by such abstractions. This is in direct contrast to the inductive quality of an institutional economics or a grounded sociological approach in which the theory is derived (induced) from the actual principles and behavior of the actors and institutions themselves, i.e. the cooperatives, the members, and the complex environment in which they exist.

Cooperative leaders, themselves, increasingly call for flexibility in adaptation to the global marketplace (Fairbarin1999). However, the unidimensionality of the neoclassical model may lead practice along a relatively inflexible road just when flexibility is most necessary. Thus, new approaches (or even revival of older ones, such as an institutional economics) are needed to generate multi-dimensional, interdisciplinary, holistic, and grounded theories of cooperation. Such theoretical developments are potentially more sensitive to the actual practices of cooperatives and more compatible with the basic principles of cooperation.

This latter model development should not displace purely economic theories of cooperation, but rather complement them. This report seeks to develop a theory that can recognize and use the adaptability and flexibility inherent in the multi dimensional interests, values, and practices of cooperative institutions. It is a "ground-up" theory rather than "top down." As cooperatives continuously restructure in adapting to a changing environment, so too, a restructuring of cooperative theory is needed so theoretical guides remain embedded in the concrete reality of cooperative organization, rather than in an autonomous logic independent of environment and history (such as neo- classical economics).

This report will first discuss the "conversion problem" as interpreted by neo- classical economics, and then critiques that interpretation based on assumptions inherent in the model itself. After a brief discussion of a sociological understanding of cooperation as a form of social interaction, we will then examine data on the "conversion problem" in relation to other forms of cooperative restructuring.

Finally, we will explore a different approach to thinking about cooperatives. This latter model focuses on the tensions inherent in the practice of cooperation. Rather than seeking to eliminate those tensions (as neoclassical economics tends to do), this model uses those tensions as sources of innovation and flexibility that can help a cooperative adapt to a constantly changing economic and political environment, while retaining its defining characteristics.

II. Restructuring and the Conversion 'Problem'

As we entered the 21st century, U.S. agricultural cooperatives evaluated by almost any measure have been highly successful. In the early 1960s, agricultural cooperatives began to control at least 25 percent of farm marketing (as high as 33 percent in 1981). Since the early 1970s, farm production supply cooperatives have held more than 25 percent of the market (USDA, 1993).

Suffering somewhat during the farm crisis of the 1980s, cooperatives rebounded strongly in the 1990s. Although not the dominant form of agribusiness (except in a few commodities), in recent years the cooperative market share is nearly one third of marketed goods and more than a quarter of farm production supplies (USDA, 1998).

Between 1992-97, cooperative gross business volume grew from $93.4 billion to $126.7 billion before dropping somewhat in 1998, primarily due to lower farm commodity prices. Between 1989-98, cooperative net income grew from $1.85 billion to a record $2.36 billion in 1995 before dropping back to $1.7 billion in 1998, due to a combination of poor farm commodity prices and rising costs of farm supplies and services.

During this time, cooperative total assets grew from $29.6 billion in 1989 to 46.6 billion in 1998. In 1989, total net worth of U.S. agricultural cooperatives totaled $13.3 billion and climbed to nearly $20 billion by 1998. In 1998, net worth or equity financed 42.9 percent of total cooperative assets. This is, overall, a strong balance sheet and from a historical point of view, must be recognized a success given the difficult origins of the movement.

It has been a hard won form of resistance to the economic conditions faced by farmers at the turn of the century, i.e. monopoly and oligopoly power at local, regional, and national levels.

However, some analysts are concerned about the health of the cooperative sector in the face of an accelerated pace of overall economic restructuring and globalization processes.

The Conversion Issue

The general problem this report reviews is "the conversion issue," i.e. agricultural cooperatives converting to investor oriented firms (IOFs). With the significant exceptions of Torgerson (1990) and Ketilson (1995), that discussion has been largely confined to the sphere of neoclassical agricultural economics.

Schrader (1989) and Collins (1991a, 1991b) examined the financial details of six cases of conversion or partial restructuring by agricultural cooperatives. One involved restructuring a cooperative as an IOF. Three cases involved the sale of the business and dissolution of the cooperative (although one of these sold its textile mill to another cooperative). The final two cases involved restructuring small segments of the cooperatives as conventional corporations with minority public ownership. Since then, numerous other conversions have taken place. We will evaluate the extent of these changes later in this report, but first will examine some of the current explanations for these conversions.

Economic Explanations

There are both economic empirical studies that seek to explain conversions, as well as theoretical conceptualizations. The empirical studies seek to identify various conditions and motives to conversion; the theoretical conceptualizations provide explanations from an orthodox neoclassical "free market" approach.

Empirical Studies

Success--Schrader (1989) raises the apparently paradoxical notion that intrinsic structural features of cooperatives lead to their subsequent dissolution. More specifically, he contends that certain cooperative practices, as well as various State and Federal laws (all based on fundamental cooperative principles) "result in a chronic shortage of capital and the lack of a means to reflect equity appreciation to owners (1989:51)." Ironically, this is especially a problem for "successful" cooperatives, if "success" is defined as an increase in the market value in relation to its book value.

The difference between the book value of a cooperative's assets and its value as a going business concern grow with this form of success. This eventually results in the cooperator's dilemma: "a cooperative that produces net earnings in excess of the opportunity cost of equity capital may be worth more to investors as an ordinary corporation than it is to many cooperative patrons (Schrader 1989)." That is, the value of members' investment in the enterprise as a conventional business may exceed the value of their participation in it as a cooperative, particularly if they have limited patronage horizons, e.g. a farmer close to retirement. Schrader suggests this dilemma is the primary motivation for cooperative conversion. Decision interests are defined as individual- financial investment interests.

Motives-- Collins (1991a, 1991b) refers to the possibility that the market value of members' equity exceeds the book value as the equity liquidation motive. He suggests three other hypotheses or motives that might explain the conversion phenomenon. The four motives are allowed to compete against one another in developing an explanation of conversion.

The *equity access motive* posits that cooperatives may gain greater access to capital by selling stock to the general public. This motivation is primarily assigned to "managers who see growth as essential" but who face a membership that is reluctant to borrow money or to provide enough equity capital to meet those expansions needs (Collins 1991).

The *corporate acquisition motive* posits that conversions may be advisable when the market value of the cooperative is high, and various parties want to buy parts of the business as stock, and/or buy the entire business.

The cost of *equity motive* refers to selling stock when demand for the business is high resulting not only in access to greater amounts of capital, but at a low cost to the cooperative. While motives or causes of conversion are discussed, all motivations are strictly limited to economic interests.

Exclusion of Other Interests-- These studies exemplify some of the limits of neo- classical models for the analysis of cooperative enterprise. They assumed that patronage horizons are limited to individuals. This neglects various other "*economic*" interests that are embedded in the families, and communities where cooperators live. Further, no *"non-economic"* motivations are permitted as possible explanations. As a rather striking example of the deductive logic of this view and its detachment from an empirical grounding, Collins concludes:

> "It is also clear from careful scrutiny of the public documents associated with these conversions that, in at least some cases, the reasons stated by the cooperative are not credible. As a result, it is prudent to stay with the usual presumption of economists that aggregate economic choices may be predicted by economic incentives".

In other words, in explaining conversion, cooperators and cooperatives themselves, often claim interests broader than mere economics. However, rather than acknowledging such claims, the neoclassical frame may simply dismiss these claims as unbelievable. This occurs because these non-economic interests lie outside the neoclassical frame or model, rendering them invisible or not credible to the observer.

Theoretical Explanations

Modeled in the Image of an IOF-- A related theoretical strategy to explain cooperative behavior has been to simply analyze IOFs and cooperatives in the same way. Much of cooperative theory has been driven by the desire to find similarities, rather than differences, between cooperatives and IOFs. This strategy forces cooperatives into models designed for the analysis of IOFs, and minimizes or excludes those aspects of cooperatives that deviate from IOFs.

Torgerson (1990) suggests this results in a theoretical forced-fitting in which agricultural cooperatives are often treated as deviant or degraded "firms" or even as an intermediate organizational type--as agriculture is assumed to tend toward total industrialization and cooperatives shift toward IOFs.

Harte (1995), for example, describes the "life cycle" of cooperatives in which "a transition from cooperative to company structure would be expected in a competitive market." This is a Noursian position that challenges the conception that there is a continuous need for agricultural cooperatives in the economy. Nourse (1991) argued that cooperatives emerge when service is inadequate, missing, or costly. "It is important that cooperatives recognize when they have in fact attained their real objective by demonstrating a superior method of processing or distribution or by breaking a monopolistic bottleneck, and they should then be content merely to maintain standby capacity or a *yardstick* operational position rather than try to occupy the whole field or a dominating position within it. In some cases, they may be well advised to entirely terminate operations once they have stimulated regular commercial or manufacturing agencies to competition amongst themselves."

This position reflects the assumption that the only environment in which a cooperative "lives" is economic. Although this position certainly has advantages in arguments that advocate for the conversion of cooperative capital, its defense on scientific and theoretical grounds is problematic.

For example, Harte assumes that market performance will tend to improve with industrialization and will diminish the need for cooperatives. He also assumes that in the long run, the cooperative form is less efficient than its corporate counterpart. He argues against the maintenance of cooperatives to perform a regulatory "yardstick" function in the market, due to the difficulty of proving or disproving this function without dissolving the cooperative.

Of course, the author misses the point that it is just as difficult to prove that competitive markets can be maintained without the role of cooperatives, because history presents us with markets that tend, not toward competitiveness and equilibrium, but toward chronic failure (Lauch 2000).

We suggest that the "boom/bust" history of modern agricultural economies--as well as continuing tendencies toward oligopolization (concentration)-- suggest more evidence for chronic market failure. For Harte (1995), "only in the special case of chronic market failure would an infinite life be predicted for cooperatives." Far from a special case, we argue that agricultural markets have historically been more oligopolistic than truly competitive (especially regionally, which is what matters most for the farmer). And given a boom/bust character to the agricultural economy, the argument for "life cycle" conversions begins to collapse, since the "yardstick" or "pacemaker" function of the cooperative must be made a permanent part of the economy.

A valid scientific test of this hypothesis would demand a relatively long period of truly competitive markets, a condition that may, in fact, never exist in the historically concentrated and monopolistic markets that most farmers have confronted in practice. However, we can make a test of this hypothesized "life cycle" in terms of the actual history of the last decade, a period of unusually high levels of restructuring. First, we will examine some of the ways in which cooperatives differ from IOFs to show why they need to be theorized independently.

III. The Cooperative Difference

Cooperative principles

Examination of the differences between IOFs and cooperatives can begin with the basic cooperative principles. Adherence to these principles means that cooperative "investors" interests in the organization are qualitatively different from those of conventional investors.

Cooperative member interests derive from ongoing organizational use, control, and benefit, implying a long-term horizon, versus short-term profit interests. Both Lasley (1981) and Ketilson (1995) imply that cooperatives combine multiple interests in a single enterprise. Cooperatives are hybrid organizations (Pestoff, 1992). They are simultaneously voluntary associations and commercial firms and yet, by combining parts of both, are neither.

Moreover, agricultural cooperatives are often significant features of the communities of which they are a part, and in ways that are not typical for IOFs (e.g., social networking; potential for localized, democratic control; and information dissemination). Finally, due to their history and relationship to rural communities, agricultural cooperatives are part of a social movement that developed as a response to the disadvantages of small and medium producers caught in investment-oriented markets with strong concentration and centralization tendencies.

Thus, cooperatives are unique. They exist *between* markets and politics and when owned by those who use the cooperative, they constitute a fundamental building block of a community of interests (i.e., producers or consumers of similar products, rather than merely owners of investment capital as in IOFs). In agricultural cooperatives it is a community of farmers.

When principles are followed, cooperatives comprise *a third way* of organizing economic activity. Analytically, they represent an alternative to the simple dichotomies: "market versus state" or "public versus private (Pestoff, 1992)."

Rationality--A further difference between cooperatives and IOFs is based in their different approaches to profits and service. Cooperatives need to make a margin over costs (loosely understood as profit) to continue providing for patron's long-term needs. IOFs, on the other hand, provide services to generate a profit. The singular interest in profit is assumed to reflect diverse needs.

Other interests, such as democratic or local control, and/or helping to sustain local communities, a dispersed agriculture and family farm survival for example, are subordinated, if not eliminated--insofar as these interests and values cannot always be bought or even measured in accounting books.

Managerial and director attitudes can be fundamental to what values are privileged. Profits (financial returns) and service, and means, and ends can become confused. According to Ketilson (1995), "Briscoe found in his study that many managers and directors of cooperatives perceived cooperative values to be incompatible with business success." Managers who held this view suffered from what he termed the "frozen co-op syndrome." They were unable to formulate long-term goals and strategies that would enable them to move out of this situation, to profitable positions without compromising cooperative character.

The confinement of cooperative managerial style to a neoclassical model of investment (and profits as an end) can paralyze a cooperative and impede its ability to meet the long-term service interests of its members. In part, this results from the dismissal of "non-economic interests," as well as an insistence that IOFs hold superior efficiency advantages over cooperatives. As an example, Harte (1995) argues, "the efficiency of cooperatives is not proven by their survival and development over so many years, as cooperatives in most countries have been favored by government policies (and sometimes used as instruments of government policy) through tax breaks and other direct and indirect supports."

Of course, this ignores the tremendous support that IOFs have enjoyed in most Western societies in the form of tax breaks, state sponsored research and development, infrastructural development (O'Connor 1973; Barlett and Steele, 1998). (Ironically, the first cooperatives in the U.S. grew out of the reaction of farmers against the transportation monopolies created by huge land grants from the Federal Government to railroad companies.)

Further, these arguments dismiss the political by isolating the economic and speaking of "efficiency" only in terms of economics. Thus, the practical political question is not raised. Why would there be such a pattern "in most countries" that would lead governments to support cooperatives in this way?

Perhaps there is a political efficiency in this. If cooperatives have this efficiency, even if derived from the political sphere, it doesn't invalidate their capacity to survive or function to meet some (perhaps unspoken or unheard) needs of society, even if the economic model dismisses those interests. The theoretical exclusion of extra-economic interests from the model doesn't amount to the elimination of their practical or historical role.

Political Interests

In their historical origin, cooperatives were clearly also political institutions. Their development has variously generated intense political opposition from competing economic interests. The neoclassical framing of cooperatives tends to minimize or exclude these political histories. Fraser (1989) describes this process in reference to the power of administrative expertise. "Experts" translate broad human needs into administrable needs by uncoupling them from their social, cultural, and political context. In the process, the original oppositional quality of the stated needs tends to be lost.

The complex needs of social actors are simplified and transformed into purely economic issues and technical problems. The democratic interests of cooperative patrons, for instance, can than become depoliticized from any social movement base, and may be "rewritten" by, or for, cooperative management, for government administrative interests, or even in the academic's interest of better fitting within an economic model. This economic reductionism then tends to narrow, and construct simpler problems from a much broader array of needs and concerns.

Analytical Homogenization

Framing the cooperative as a "firm" also tends to eliminate other "irrationalities" or interests that are external to a neoclassical focus. By taking the enterprise as the unit of analysis, the heterogeneity and diversity of a cooperative's membership tends to be ignored--as are the divergent, perhaps conflicting interests between members and management.

Harte (1995:9) views the plurality and diversity of interests represented by cooperatives' democratic organization as "confused objectives." He recognizes the non- coincidence of interests between management and members as being a control "problem" for cooperatives. His solution is to concentrate ownership as well as control under fewer persons and a single objective.

However, the natural plurality of interests intrinsic to cooperatives is glossed over, if not eradicated, by viewing the cooperative as a single and homogenous entity that "seeks to maximize a single objective (Staatz 1989)," i.e., the maximization of net margins. Ketilson (1995:6) specifically addresses this issue with a contrary view. She writes:

> "unlike the picture of goal setting and behavior posited by rational models of organizations, not all behavior in the cooperative organization is completely integrated or functionally indispensable, contributing to the achievement of an ultimate goal. Rather, the cooperative pursues a variety of goals, some of which may be in competition with each other. It is possible that conflict can be resolved only be serial attention to this multiplicity of goals, but the end result may be that no one goal is adequately achieved. In order to understand what therefore is perceived as seemingly erratic or non-rational behavior, a multi-constituent perspective regarding goal setting and decision-making is required."

The models we propose seek to deal with the pluralism and the diversity of interests within cooperatives as an advantage rather than a liability.To formulate this model, we first consider some basic differences between sociological and neoclassical economics approaches.

IV. Sociological and Economic Analyses

Most of the analysis of this conversion process has been within the framework of neoclassical economics. We propose an alternative model with which to view cooperative restructuring and conversion. After introducing the basic premises of a sociological framework, we examine some data concerning the nature of restructuring and conversion in order to assess the relative usefulness of the two frameworks.

Next, we will return to specify in more detail a sociological approach to cooperation. We will not argue that one frame is true and the other false--only that the two models provide different vantage points of the same phenomenon. Thus, a sociological framing of the conversion issue will raise different questions and accentuate different concerns.

Unit of Analysis

Sometimes the difference between the two approaches is in the unit of analysis. Neo-classical economics begins with a focus on the individual actor (or enterprise) as the initiating unit of analysis. The sociologist, on the other hand, begins with the interaction, or the relationship itself, between two or more individuals (or enterprises).

Social relationships can take many forms. From a sociological view an interaction might be understood as characterized by *conflict*, as in the case of the relationship between a buyer and seller or a landlord and tenant. One actor's gain comes at a cost to the other. An interaction might be characterized by *competition*, as in the case of two gas station owners at the same intersection or two carpenters bidding for work on the same house. An interaction might be characterized by *cooperation* such as two assembly line workers or two carpenters building the same house.

In agriculture, two or more farmers producing the same commodity *can choose to compete* with one another in the market (like the two carpenters bidding against one another) or they can *choose to cooperate* with one another, pooling resources to confront the market together (like the two carpenters building the house together).

The neoclassical economics model generally assumes competition among actors as the predominant relationship. Social relationships are assumed to be competitive with similar members of the environment and conflictual with dissimilar members (although the languages of market power, rather than conflict are used). These assumptions are then applied in a deductive manner in the analyses.

Sociologists generally assume these relationships--competition, conflict, cooperation--are empirical questions. They seek to discover the predominant form of interaction in social relationships which are generally understood as adaptations to complex cultural, historical and environmental conditions. The analysis is inductive.

To some extent, for neoclassicists, the act of cooperation can become a "problem" to be explained. This occurs because, first, the unit of analysis is the self-interested individual pursuing a single goal. Second, because that individual is also assumed to be in competitive relations with other actors, cooperative behavior tends to lie outside the boundaries of the neoclassical framework.

The Noursian framing of cooperation can be seen in this light. Nourse assumes that cooperation is an aberration, a "problem" to be explained. Cooperation only emerges from the "failure" of the competitive market and should recede once it has accomplished its corrective function. This view of cooperation derives from the deductive logic, and assumptions of isolated and rational individuals acting in their own best interest in the context of a competitive market.

For sociologists, none of these assumptions are given. Because the focus is on the social interaction and the analysis is inductive, alternative forms of interaction-- competition, conflict cooperation--are more easily considered. The actor is neither in isolation nor is the interaction (the market) assumed to be characterized as competitive. A sociological (and institutional economics) approach can more easily give attention to issues of power and inequalities in assets or resources brought by respective actors to historically given interactions.

These factors make the issue of cooperation less problematic for the sociologist (and the institutional economist). The actual development of cooperatives is more easily understood as a response to enduring, unequal power relationships in the boom and bust agricultural marketplace.

Finally, sociologists do not always assume individuals to be rational. Nor is there a need to privilege rationality as an assumption in the approach. Indeed, though rational action is a possibility and some sociological models make this assumption explicit as a means of simplifying explanations, social action may also be driven by emotion, affection, or tradition.

The economist actors' rationality consists of a means-ends schema, i.e., what is the most "rational" means by which a particular end can be attained? The sociologist also entertains the possibility of a different type of rationality in which the means and ends tend to be fused around the adherence to a particular value or a constellation of values.

For example, the common expressions, "Winning isn't everything, it is the only thing" and "it is not whether you win or lose, but how you play the game" would be examples of this difference. The former expression suggests that all play is subordinated to the singular objective of victory, i.e., the play is only a means to the end of winning. The latter expression suggests the orientation toward winning the game is not necessarily subordinated to the play itself but exists in a tension with, or as part of, the process of playing the game, i.e., means and ends are fused.

This points to a larger distinction between the neoclassical economic and sociological framing. Sociologists tend to recognize that in actual social life, a plurality of values and objectives are being pursued simultaneously, while the economist tends to focus on the pursuit of economic objectives and to the exclusion of other interests. The sociologist might, for example, view cooperative economic practices as simultaneously satisfying such other (non-economic) interests as democratic decision-making, the enhancement of a community's solidarity by extending social networks, and/or deepening commitments to historic cooperative traditions. We return to some of these issues and these differences between sociological and economic analysis in more detail later.

The bulk of existing literature on cooperative conversions has been written from the neoclassical economics point of view. Insofar as the conversion of cooperatives has, thus far, been explained largely as a function of various interests in equity capital, the sociological analysis must ask, Is there more at stake in the conversion of cooperatives to IOFs than equity interests alone? More specifically, we must consider: 1) other values that might be lost or sacrificed with conversion, and 2) alternative functions of cooperatives not captured by the (neoclassical imputed) analyses of self-conscious interest (e.g., to impede capital flight from specific geographic places). Such considerations pull upon the strengths of sociological approaches and can supplement the weaknesses of neoclassical economics.

V. Assessing the Equity Conversion Theses

Method of Analysis

We have reviewed the incompleteness of theories of cooperatives based solely in neo-classical concepts. However, we also question the case study methodology used in these analyses. Schrader and Collins took existing conversions and explained them in light of what would be expected of "successful" cooperatives, i.e., those whose market value is greater than their book value.

This is the equivalent of studying a number of cases of juvenile delinquency, finding the predominance of low socio-economic status in cases of juvenile arrest and conviction, and concluding that low socio-economic status causes delinquency. This conclusion would have been reached without examining all those other cases of low socio-economic status that do not result in juvenile delinquency.

The conversion case studies are scientifically sound, only if the cases studied represent all, or at least a representative sample, of the ***potential*** cases for conversion. However, there are, in fact, many other cooperatives that have market value far in excess of their book value that haven't converted or perhaps haven't even considered conversion (Wissman, Kraenzle).

Thus, the most that can be said about the four hypothesized explanations is that these may be necessary, but not sufficient conditions for conversion. Most cooperatives do not convert, even though they meet the equity conditions for it. Anticipating sociological considerations, we then ask, why aren't these sufficient conditions? There must be other intervening variables that modify or reduce the significance of these motives.

Non-Economic Interests

Sociological analyses suggest there are other values held by cooperatives and their members that are not willingly sacrificed in the interests of short-term or more fluid equity.

Non-economic interests may include a democratically structured organization, the valuing of a locally controlled economic organization, self determination and self reliance, political networks and power developed via cooperative organization, and/or leadership development potential of the cooperative. In asking, "How would rural America and Midwest farming differ if cooperatives had never existed?," Torgerson (1999) has posited several of these "*other than economic*" values and interests.

Thousands of American farmers exercise a similar rationality in practice every day. They have considerable capital invested in their farms. The market value of their land may yield more income (as liquidated capital assets) than they can make by farming. Yet, they do not convert this equity. The common saying, "Farmers live poor and die rich," expresses this behavior. There may be many reasons why this equity is not converted. The economic explanation would likely be limited to the hypothesis that the farmer hopes or expects the value of the farm to increase and is simply waiting for a higher return on his or her investment at a later date.

The sociologist examines other values or even traditions and emotions that inhere in this decision (or non-decision). Salamon (1992) has shown that many farmers in central Illinois have a greater interest in passing the land on to the next generation than in holding the land for speculative purposes. Indeed, her observations point to the fact that it is the profit-maximizers that actually disappear from agriculture. They "cash in" on the value of their farms, retrieve the equity, and leave farming to be replaced by those who place other interests above profit, per se.

Another such interest might be in the independence (being "my own boss") afforded by farming compared with many other occupations. Some farmers simply value the farm work itself, the immediate interaction with nature, with the land or the animals; or the diversity of tasks demanded by farming compared with most other occupations (Mooney 1988). The same logic that supports maintenance of a cooperative, even at the cost of access to invested equity is similar to that played out on the farm. Economically, invested equity permits the existence of the cooperative to provide economic services and functions that might not be provided otherwise. However, cooperatives can also provide a range of social, political, and cultural capital for farmers and their communities that IOFs are generally incapable of creating (Torgerson 1999).

Other Economic Interests--Sociology looks behind the actions, values, and interests of individuals and toward deeper structural explanations. The retention of equity capital by the cooperative can be understood as a functional adaptation to the cyclical character of the agricultural economy. Whether or not members or even leaders are conscious of this function, cooperatives function to impede the problem of capital flight. It is precisely in the retention of equity that this mechanism is located.

An IOF might readily abandon a community during a prolonged recession because its primary objective, the pursuit of profit, is impeded by such conditions. This is much less likely in the case of the cooperative which, by holding the equity reserves of members, is not only more likely to survive the crisis but is impeded from leaving the community and relocating.

This insight derives from the sociological (and institutional economics) tendency to view structures within a historical context. When the analytical focus is on the individual (as is the case with neoclassical economics) structural considerations that span generations, and account for community changes, tend not to be readily considered, and are easily overlooked.

Those cooperatives that convert to IOFs sacrifice this structural function. Should hard times come to their region or commodity, there will be no assurance that this service will be sustained by an IOF. Under such circumstance, it may simply close down the operation or move to a more profitable location. In fact, the IOF would be obligated to its stockholders to do exactly that, just as the cooperative would be obligated to its members-owners to stay put.

In staying put, *other economic* interests or values are met, and at the level of the family and/or the community, not just with the individual. Torgerson (1999) posits such values and interests are in the form of economic "public goods" such as strengthening overall rural economic infrastructure, access to markets for smaller farms, market development via cooperative promotion programs, and bargaining power in contract negotiation.

Conversion tends to be expected from the neoclassical perspective (and from Noursian views of cooperatives). However, this suggests that its anticipation may lie more in the realm of theory than practice. It is an action expected by the theory due to unjustified assumptions. When conversion occurs, it may be cause for celebration of the theory being realized in practice. However, it may in fact be an exception to actual historical developments.

Just what is the extent of cooperative conversion? Considerable cooperative restructuring has taken place in the last decade. The extent to which this is actually conversion from cooperative forms to IOFs needs to be examined. It is possible that much of the restructuring is simply taking place *within* the cooperative sector itself and does not reflect a shift to IOFs.

Market share analysis does not indicate any significant losses in the cooperative sector as a whole. While there are periodic ups and downs in market share, the general trend indicates a strong and healthy market share and net worth (Kraenzle).

Examining the Evidence

Wadsworth's recent publications on cooperative restructuring (1998) and cooperative unifications (1999) may be helpful in measuring the extent of cooperative conversions. Wadsworth has drawn from various news sources and USDA's Rural Cooperatives magazine as well as those cooperatives that have been dropped from USDA's mailing list as they have been restructured or converted out of existence for one reason or another. We have reformulated Wadsworth's six-fold classification (expansion, contraction, revamping, agreement, unification, and joint venture) into six different categories that better address the question with which we are concerned. These categories are:

1. Interaction between two or more cooperatives:
   a. alliances,
   b. joint ventures,
   c. mergers, and
   d. acquisition of assets.
2. Acquisition of some or all of an IOFs assets by a cooperative.
3. Other forms of interaction between a cooperative and an IOF.
   a. an alliance
   b. joint venture
4. Acquisition of some or all of a cooperative's assets by an IOF.
5. Expansion of a cooperative (building of new facility, investment in renovation, etc.)
6. Other forms of closure, consolidation.

Table 1--**Form of restructuring**	**Number**	**Percent**
Cooperative/cooperative interaction	115	36.6
Cooperative acquires IOF assets	52	16.6
Cooperative/IOF interaction	48	15.3
IOF acquires cooperative assets	15	4.8
Expansion of cooperative	73	23.2
Closure of cooperative	11	3.5
Total	314	100.0

We eliminated from Wadsworth's sample other less relevant forms of restructuring such as changes in location of headquarters, changes in name or logo, reports of study or talks of mergers, cases reported more than once, etc.

These data show clearly that the most dominant forms of restructuring occur entirely *within* the cooperative sector. While there is considerable consolidation, merger, alliance, and joint venture activity, more than one-third (36.6 percent) of this is *between* cooperatives. Nearly another quarter (23.2 percent) is merely expansion of existing cooperatives.

Various forms of interaction between cooperatives and IOFs that fell short of outright conversion (alliance, agreements, and joint ventures) constituted 15.3 percent of the sample. Less than 4 percent involved the closure of cooperatives. About 5 percent of the sample actually consisted of full conversion, i.e., the acquisition of cooperative assets by an IOF. Actually, the frequency of cooperatives acquiring IOF assets was more than three times as common (16.6 percent) as IOFs acquiring cooperative assets!

While the neoclassical economic model would expect successful cooperatives to be purchased by IOFs, it appears that successful cooperatives might be far more likely to simply expand their own enterprise, to achieve some alliance or merger with another cooperative, or acquire IOFs. This quite clearly contradicts the various concerns posed by the economic framing and the idea that cooperatives should mature into IOFs.

These data would suggest that the "threat" of a tendency toward conversion of cooperative capital to private capital is not nearly so great as might be implied by neo- classical economic and Noursian theory. The greater threat to cooperation probably lies in the increase in scale that inheres in the process of concentration (merger, joint venture, alliance, etc.) that is, in fact, taking place within the cooperative sector. As Torgerson (1998) notes, "This isn't your father's cooperative." Cooperatives are changing to remain competitive, sometimes in the belief that they need to be one of the two or three competitors in any sector that are increasingly assumed to constitute the upper limits of what now passes for "competition" in contemporary markets (Merlo 1998).

Heffernan (quoted in Merlo) claims he is less concerned with cooperatives merging with each other, than cooperatives merging and forming joint ventures and strategic alliances with IOFs. This form of restructuring is more prominent than outright conversion, although still not as pervasive as cooperative expansion or various forms of intra-cooperative restructuring.

Can the democratic principle of one-member/one-vote, which is the basis of user- ownership, user-benefit, and user-control, survive such increases in scale? Torgerson (quoted in Merlo) cautioned, "The administrative hierarchy can get far removed from the cooperative's member orientation…there's a danger that the cooperative could be viewed as just another business." In this setting, and particularly in the cooperative/IOF interactions, the firm might shift to a "culture that is more corporate than cooperative."

The model that we will now develop seeks to focus on tensions within cooperatives. The presence of these tensions has been, and can continue to be, a positive force in the cooperative movement. Most current cooperative theory, however, seeks to eliminate tensions in the attempt to develop a unidimensional model that unrealistically simplifies the intrinsic social and political character of economic action and agricultural cooperatives.

VI. Restructuring Cooperative Theory: Toward A Sociological Approach

In 1935, George Fauquet observed, "A cooperative consists of two essential elements, a democratic association of persons and an economic enterprise. In separating these for the purposes of analysis the essential is lost. It is the manner in which the two are coordinated that forms the basic problem of cooperatives (Vitaliano 1977)."

Much of our criticism of the neoclassical approach can be traced back to this impulse of cooperative theory to separate these elements of cooperation. Theorization has generally been made as if cooperatives and the cooperative movement were an abstraction separate from the socioeconomic and historical context in which they exist.

This model seeks to 1) theorize cooperation without separating the economic from the democratic and 2) to inductively incorporate aspects of the cooperative context into the theorization. To consider both the economic and the democratic simultaneously necessitates theorizing aspects of cooperation that are frequently in tension or in contradiction with each other. The retention of contradictions in our theorization serves to resist the simplification and single dimension typical of such models as neoclassical economics.

The model developed here seeks to retain tensions between opposing tendencies in cooperatives as they actually operate, and to account for a context that itself, is frequently laden with contradictions. To follow Grabher and Stark (l998), "although organizational homogenization may foster adaptation in the short run, a loss of the diversity inherent in conflicting tensions and interest, can impede organizational adaptability in the long run. Institutional friction that blocks transition to an already designated future [e.g. conversion] keeps open a multiplicity of alternative paths to further exploration." Four contradictory tensions will be theorized (figure 1).

First, and following Fauquet, as a *capitalist* economic form usually governed by a *democratic* principle, cooperatives bring together qualities that do not easily co-exist--democracy versus bureaucracy, and economic performance versus participation. (This can become manifest paradoxically in the need to accommodate to a diversity of membership interests, and in an interest to develop a more governable, homogeneous whole.) Second, cooperatives also provide the tensions noted by Friedmann (1995) in her work on the relationship between *production* and *consumption.* Third, in this time of increased attention to processes of globalization, cooperatives present unique tensions between the *global* and the *local.* Finally, in terms of the sociology of collective action, the predominant representation of cooperatives would lead us to classify them as *traditional social movements.* However, there are at least latent elements of *"new" social movements* within even the most traditional cooperatives.

Figure 1--**Institution friction**	**Site of Tensions**
Capitalism/Democracy	Political Economy
Production/Consumption	Social Relations
Global/Local	Spatial Relations
Traditional/New Social Movement	Collective Action

In these ways, the cooperative organizational form encompasses tensions that (in separating the elements of democratic association from economic enterprise) have too often been seen as an obstacle to the pursuit of a single-minded interest. Those very tensions may, in fact, be the wellspring of strength, innovation, and flexibility that has historically served multiple and sometimes, apparently contradictory functions quite well.

Democratic Capitalism

The most apparent manner in which cooperatives reveal a contradictory tension is in the interface between their economic and political elements. As economic entities, cooperatives are capitalist enterprises, created, in part, to compete with monopoly and oligopoly enterprises. The historical conditions that gave rise to U.S. agricultural cooperatives led to a strong, although sometimes merely formal, democratic structure in their organization.

Unlike other capitalist enterprises, cooperatives have traditionally incorporated a democratic political principle (one member, one vote) into their internal governance. This aspect has always stood in contrast to IOFs in which voting privileges are directly proportional to levels of investment.

The vast majority (93 percent) of agricultural cooperatives are still formally run by democratic principles (Reynolds, Gray, and Kraenzle, 1997). However, this democratic quality is increasingly coming into question. Two forces seem to be largely responsible for this challenge.

First, following the logic of only the economic element of cooperatives, some theorists find cooperatives' democratic element to be at odds with purely economic interests. This leads to calls for either wholesale restructuring of cooperatives as IOFs or for the elimination of the "one member, one vote" principle and substituting proportional representation. The simplified logic and interests of size and scale of individual members (and implicitly investment) are given priority over the broader and more complex interests of the community of diverse members (as privileged by the one member, one vote principle).

The conversion to an IOF is a logical outcome in an analysis that considers only the investment and market value of the cooperative to the exclusion of more general values embedded in the cooperative principles i.e. user-ownership, user-control, user-benefit. Under democratic governance, the priority of dispersed and collective use of the cooperative is protected against its usurpation as a mechanism for individual exchange, and ultimately individual investment. Substituting proportional voting can compromise the mutually democratic character of the cooperative by allowing into the decision making processes the disproportionate representation of larger farm and investment interests. That erosion, in turn, can threaten other fundamental principles of cooperation.

A second force opposing the democratic principle is the increasing bureaucratization of ever larger and more complex cooperative organizations. Control is assumed by management, as members are increasingly defined as incapable of making decisions on "technical" matters that only experts are held qualified to evaluate. Drawing on Lasley's (1981) analysis of cooperatives' inherent "dual objectives," Seipel and Heffernan (1997) argue that maintaining member involvement and the generation of profit necessary for survival in the economic marketplace can be inherently contradictory. They contend that as authority has increasingly been delegated to hired management and staff, purely economic interest has become dominant in cooperative decision making.

This latter form of erosion of the democratic element may be more threatening than actual conversions. As indicated earlier, cooperatives are not converting to IOFs in substantial proportions, but rather are consolidating or merging with other cooperatives. This restructuring adds to the complexity and scale of cooperative organizations, creating large bureaucracies far removed from the member. As a general manager of a large dairy cooperative recently noted, "Size can be traded for the members' best interests. You get bigger to create positive efficiencies but the best interests of local members are traded for the greater good of the whole (Merlo 1998)." However, local members can be left wondering if the cooperative is truly different from any other large organization.

A third tension pulling against democratic aspects of the cooperative can be management itself. Drawing on agency theory, Seipel and Heffernan (1997) argue that cooperative management may develop a set of interests that are quite distinct from the interests of the cooperatives' members. Cooperative managers may tend to administer it as an IOF, single-mindedly focusing on "earnings or sales growth" to the "neglect of other activities that could enhance member service or meet other member goals." This can happen when managers' thinking is confined to a neoclassical economic perspective or, when they have an interest in enhancing their own individual marketability as business managers in the IOF labor market.

Active democratic participation is the way an autonomous interest of management can be countered. Democratic participation may ensure that multiple objectives, if they exist, remain "on the table," and are not reduced to a single objective. Retention of democratic principles facilitates the institutional friction that managerial interests tend to work against as they seek to rationalize the cooperative along a singular, more easily administered, dimension of economic interest.

However, if this friction is overcome by management, bureaucracy, and/or conversion, it will fragment the multiple interests members have in the organization. Cooperatives are both economic and political (democratic) organizations. Without this tension, the organization would not be a cooperative. Its continued persistence allows for addressing multiple if not contradictory although contentious interests.

Production and Consumption

Cooperatives function in a context of a market place organized around a fundamental tension between production and consumption, and between producers and consumers. The paradox here is that this antagonism is also, of course, a relation of interdependency--interests can be connected. Indeed, each sphere can only be meaningfully understood in relation to the other.

The history of the cooperative movement reflects an interest in overcoming this division. The vision of a *cooperative commonwealth* (Voorhis 1961) recognized both the distinctive and common interests of producers and consumers and sought to create an organizational structure that unified these interests.

Voorhis expressed this longstanding interest to link production and consumption through cooperative structures, "…if a considerable proportion of farm crops 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."

Further, he argued strongly for the development of consumer cooperatives. "But only as major consumer needs are met cooperatively, only as the people come into ownership of businesses supplying the things on which their big expenditures are made-- only then can the full influence of cooperative enterprise upon a nation's economy be brought to bear. Only then can 'consumer preference' begin to have any meaning, and only then can the consumer interest begin to be asserted and defended."

More recently, Friedmann (l995) contended that there are a series of "newer" problems--human health and food safety, environmental issues, land use, community sustainability--that suggest a need for integrating (or regulating) food and fiber production and consumption interests. However, how to effectively mobilize to address these problems is not clear.

Friedman (l995) argues that "strategic power [to affect change in agriculture] has shifted from farmers to corporations." Further, she contends that "Economists and corporate managers, who have considerable clout in setting political agendas, count [such costs as] hunger and the ecological costs of mono-cultural farming as "external [and therefore of little priority, relative to their own explicit institutional agendas]."

Some suggest agricultural policy is at an impasse to confront these problems with no readily identified mechanism for solution. A possible alternative could involve revitalization of the older cooperative commonwealth view. "An environmentally and socially sensitive agriculture presupposes consumers whose food needs are effectively transmitted to farmers, as well as citizens whose environmental needs are effectively transmitted to farmers (Friedmann)."

These varied needs can be internalized via producer cooperatives (production) and supply and service cooperatives (consumption). Cooperatives oriented to either production concerns, or consumer interests, share the capacity of democratizing both spheres. This long-standing interest of the cooperative movement can be found in recent comments by Elroy Webster, co-chair of Cenex Harvest States, in reference to their mega-merger. "We wanted to create a seamless agricultural food system to link producer to consumer (Merlo 1998)."

Friedmann asks if there is some happy medium "between public regulation and private power" over food production and consumption. The cooperative form has the advantage of providing a middle course in which regulation lies neither purely in the economic sphere (market regulation, or a private, corporate regulation) nor in the public sphere of state regulation.

Rather, cooperative regulation could entail control by producers and consumers of food in economic organizations whose internal political structure is democratized. The synthesis of these spheres--production and consumption--is a cooperative advantage. Democratization via distinct (producer and consumer) cooperative structures could ameliorate the tendency to view many of the "costs" of the current food production and consumption as external costs.

To the extent that cooperatives tend to be tied to a geographic place more than IOFs, democratically organized cooperatives present a potential for internalizing into a community of members, health, environmental, and land-use issues as part of one's everyday life world. This internalization is not open to investment organizations, given their strong internal tendencies to exclude and make external to the firm, larger social, ecological, and community costs.

Local and Global

Cooperatives function in an increasingly global economy. However, parallel and in some ways contradictory developments exist that give priority to local needs and demands. The equity retention principles in cooperatives tie them to a particular geographic place. From the standpoint of capital mobilized for investment, this may appear as an unnecessary and unwanted constraint.

Paradoxically, from the standpoint of cooperative capital, it is a way to prevent capital flight from areas due to various globalizing tendencies. Economic models that emphasize returns on investment to holders of capital may criticize this lack of mobility as likely inefficient. However, a more historical and holistic view reveals this "place- fixedness" as a long-term, adaptation that protects cooperatives (and their communities) from recessionary periods when strict capital investment interests may opt to leave a geographic area (Mooney 1995).

Agricultural cooperatives were partly created to compete with and challenge oligopoly (concentrated) interests. To the extent IOFs enter the global market place, agricultural cooperatives may need to as well. However, this complicates member governance, not only by adding to the complexity of the cooperative bureaucratically, but also by creating assets vastly separated from members by physical distance. It also raises questions concerning membership in the cooperative by foreign customers. Seipel and Heffernan (1997) and others argue that cooperatives' attempts to have a presence in a globalizing market place are characterized by both constraints and unique opportunities.

Hassanein (1999), for instance, has argued for the importance of developing local knowledge in response to processes of globalization. She details the advantages that can be obtained by familiarity with a locale and its specificity. This can be a competitive advantage in the face of a globalization that tends to homogenize regional differences, push products and services toward standardization, and eliminate unique local qualities. Hassanein shows that democratic forms of organization are far more capable of producing and retaining local knowledge related to agricultural production than the bureaucratically organized, hierarchical forms of knowledge production and exchange employed by large IOFs.

Under democratic principles, the cooperative would be better able to facilitate the production and exchange of knowledge related to local production conditions. Indeed, such a function would be an advantage of the cooperative that would be difficult for large IOFs to duplicate. Seipel and Heffernan (1997) recognize this possible cooperative advantage, but also warn that such innovation "may require flattening hierarchical managerial structures and returning more operational autonomy to local affiliates...."They argue that, "the federated structure of many regional cooperatives offers a model which could facilitate such decentralization but it will take a conscious effort by the upper levels of management to make it a reality. Relinquishing such control is difficult and often goes against the historical tendency toward centralization of decision making in cooperatives."

Seipel and Heffernan contend this decentralization of control is predicated on high member involvement, i.e., the practice of democratic principles. It's promise is high in terms of developing the "permanent innovation," flexible specialization, and quality that "health-and food-safety-conscious consumers" are expected to demand in the future. Cooperatives may have an advantage in the development of "new, customized products...marketed outside of traditional channels." Their suggestion that cooperatives seek out "new alliances with consumer groups" relates back to the cooperative commonwealth vision of bridging social relations of production and consumption, as well as bringing together the local with the global.

Hassanein's treatment of these forms of development of local knowledge is tied to issues raised by the literature on what are often referred to as the "new social movements." This brings us to a consideration of a fourth site of contradiction upon which cooperatives seem uniquely situated--the tension between the old or traditional forms of social movements and the new ones.

Traditional and New Social Movements

U.S. agricultural cooperatives have in part been organized farmer reactions to changes in government policy or relations with large enterprises such as banks and processors [railroad companies, other agribusiness] that have affected them adversely (Mooney and Majka 1995).

They have been organized around production and farmer issues to retain value on the farm and maintain financial solvency. In these respects, agricultural cooperatives are fairly traditional in their pursuits of particular class (farmer) interests. Like other traditional movements, they have also tended to privilege bureaucratic forms of organization at the expense of democratic aspects, frequently with reasoning that priviledges economic expediency.

Writings by Johnston, Larana and Gusfield (l994) and Beuchler (l995) suggest new social movements are oriented to "enlarging the systems of member participation in decision making." They tend to give priority to democratization generally, and are based in actions and interests beyond those of simply class position. Beuchler (l995) refers to this broadening aspect of new social movements as a search for "other logics of action." They cut across several different groups and interests, with democratization being of prime importance.

Agricultural cooperatives contain characteristics of new social movements or, at least, potential incubators of new social movements. The basic cooperative principles of user-ownership, user-control, and user-benefit and their ties to democratic relations opens the door to the "other logics of action" that characterize the new social movements.

Following Castells (quoted in Beuchler 1995), democratic aspects provide the possibility of resisting "the standardization and homogenization associated with bureaucratic forms of organization." It allows alternative values and interests and avoids reducing the meaning and purpose of the organization, for example, to only return on investment. It also creates the potential for valuing cooperation for its own sake.

From a new social movement perspective, cooperation is no longer seen as merely a means to a given end (improving the financial solvency of farming/cooperative business). The means and ends of cooperative are fused; i.e. there is a value inherent in the very process of cooperating. This orientation is reflected in the comments of Elroy Webster, co-chair of Cenex Harvest States."Co-op members are rooted in tradition and personal feelings of ownership." He also observed that concentration of cooperatives can lead to a "perceived loss of an organization's institutional history and culture (Merlo 1998)."

Historically, and from an old social movement perspective, agricultural cooperatives have been organized around issues of production and class (farm). However, Tourain (l988) has argued that the cooperative movement presents an antagonism that corresponds with the predominant conflict in contemporary society, i.e. the conflict between consumers/clients as the popular class and managers/technocrats as the dominant class. In a broad societal sense this conflict gives focus to "a system seeking to maximize production, money, power and information, versus subjects seeking to defend and expand their individuality."

A parallel expression of this conflict between principals (members) and agents (management) within cooperatives was described by Seipel and Heffernan (1997). Resistance to the concentration of decision making and control in the hands of experts and administrative apparatus would reflect this new social movement quality within the cooperative movement.

The dual objectives intrinsic to cooperatives suggest, however, that even with a strong emergence of specific member interests, they would need to exist alongside a continued and important role of economic performance. Both interests exist simultaneously. The tension, itself, can provide a positive source of organizational development. Without this tension, an organization would perhaps still exist, but not as a cooperative. It is only in the context of continued democratic governance (a new social movement perspective) that these tensions are maintained and can serve as a source of long-term cooperative adaptation.

VII. Conclusions and Implications

The last decade saw the agricultural cooperative sector recover from the farm crisis of the 1980s and often in restructured form. One form, the conversion of cooperatives to IOFs attracted attention from cooperative analysts. Some viewed this outcome as a natural or inevitable consequence of cooperative "success." Research however, revealed very little conversion of cooperatives to IOFs. Successful cooperatives are far more likely to expand operations, merge with other cooperatives, or even to acquire IOFs.

The expected conversion is grounded more firmly in theory than practice. Cooperative theory has increasingly developed as a body of deductions from a set of assumptions that oversimplify actual human economic behavior. A sociological approach was posited that might complement the economic approach with a multidimensional quality tied to a broader and more inclusive range of values and interests, rather than the unidimensional analysis of neoclassical economics.

Thus, we laid the premises for the development of a theory that is grounded in, or deduced from, the actual conflicts and dilemmas or tensions that persist within cooperative organizations: 1) bureaucracy versus democracy, 2) production versus consumption, 3) global versus local, and 4) traditional versus new social movements.

While these tensions may be defined as problems by cooperative management and troublesome for the development of a deductive theory, these tensions may also provide the institutional friction that facilitates the innovation and flexibility of the cooperative sector. These tensions, describe cooperative strengths as a unique form of economic democracy in an agricultural system, ever more dominated by the bureaucratic character of corporate organizational culture.

This analysis has been guided by an interest in the process of institutional democratization and a furtherance of democratic civil society (Cohen and Rogers 1995). This interest has in part been stimulated by the eclipse of institutional economic (and sociological analyses) of cooperatives by a neoclassical economics tradition of unidimensional analysis.

As an economic entity, cooperatives are among the few institutions in the late 20th century U.S. that retain semblances of democratic governance. In this way, they might constitute an important building block of a more democratic society. Etzioni (1993) argues: that communities congeal around such institutions. However, when these institutions are "consolidated" in the name of greater efficiency, communities are often undermined.

In the context of an increasingly global economy, cooperatives provide opportunities to participate in local economic life and can even function to lay the sort of moral claims upon members that Etzioni cites as fundamental to the construction of community. Such moral claims are, of course, excluded from those neoclassical models that are grounded in individual self-interests.

Even the business management literature reflects trends moving in new directions. Seiling (1997), for instance, argues that IOF employees should be directed toward an organizational model in which they are referred to as "*members*," and that the workplace should encourage them to "assume *ownership* of and responsibility for the organization's performance and success." In this sense, cooperatives are already ahead of the game. For cooperatives, this is not just rhetoric. In fact, they have ownership, at least formally. Ironically, it may often be necessary for these member/owners to reassert this structural role in the face of its eclipse by the managers, that are, in fact, the *employees* of the cooperative.

Such movements demand adherence to the long-standing basic principles of the cooperative movement. Torgerson, Reynolds, and Gray (1997) contend, "Cooperatives are strategically adjusting and repositioning their operations, but to maintain a role of acting in the interests of producers, they will need to use fundamental cooperative principles as their primary logic and discipline of organization." The democratic aspect of cooperatives as a principle is fundamental to their continued success, both internally regarding effective management and externally about the role various associations can play in revitalizing and sustaining a democratic society and culture.

The authors highlighted the increasing difficulty of recognizing differences in cooperative and IOF behavior. They note the trend toward bureaucratization, centralized decision making, and the predominance of neoclassical economic theory over social (and institutional economic) theory as a development that "paradoxically" drives the cooperative "away from cooperative logic form" in a process of "goal inversion."

Members may become merely "residual claimants" in their own cooperative. This report calls for a "more holistic and multi-disciplinary approach to theory" and research on cooperation in U.S. agriculture. As a movement toward a political economy of cooperation, perhaps this can inspire further work toward the development of an even more multidimensional theorization in the form of a sociology of cooperation.

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Rural Business–Cooperative Service (RBS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The cooperative segment of RBS (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine.