

Both Market and Hierarchy: Understanding the Hybrid Nature of Cooperatives

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Abstract

What is a cooperative? Until the early 1960s much of the theoretical debate focused on whether cooperatives represented a form of vertical integration by farmers, that is, an extension of the member firms (Emelianoff; Phillips; Robotka), or whether cooperatives could legitimately be analyzed as organizations having scope for decision making independent of their member firms (Enke; Helmberger and Hoos). Subsequent theoretical work has modeled cooperatives based on coalition (Sexton; Staatz; Zusman), nexus of contracts (Staatz; Schaffer) and property rights perspectives (Vitaliano; Cook). More recently, the cooperative has been characterized as a hybrid governance structure (Menard). This paper contributes to the economic theory of the cooperative firm by addressing it from a hybrid perspective. Following Menard, this paper discusses the three “regularities” of hybrid arrangements (i.e., pooling, contracting and competing) and examines whether and to what extent cooperatives share such regularities. Differently from Menard, however, this paper does not view alternative governance structures as intermediate forms arrayed on a single continuum between two polar forms (i.e., markets and hierarchies). Departing from Williamson’s unidimensional continuum of governance structures, the paper adopts the view that governance structures exhibit multiple dimensions – including authority, ownership and incentives – and true hybrids are market-like on some of these dimensions while hierarchy-like on others. Preliminary evidence will shed light on the usefulness of this approach to our understanding of cooperatives as hybrids.