# Exit and Voice Preferences of Group-Members as a Result of Cooperative Growth

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**Abstract:** *The term "growth" has established itself in economic and social sciences as not only an indicator, but also a self-evident synonym for positive development. That applies also to previous works which recognized the limited growth characteristic of co-operatives, embedded in their duality as social groups and economic enterprises. In this work we attempt to provide a rational explanation to the behaviour of co-operative group members and its resulting limitation to co-operative growth. Based on these recognitions we then establish the thesis that also a non growing co-operative can perform as a social elevator for its members in the market environment, provided a continuous traffic of members into and out of the group.*

**Key words:** cooperatives, groups, membership, exit-voice, strategic decisions, growth, behaviour

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## 1. Introduction

Cooperatives retain internal growth barriers which origin in their nature as voluntary associations of individuals. The so called dual nature of cooperatives determines their entity as a social group in addition to being an economical enterprise. Under the premise of rationality and expanding the concept of M. Olson (1965) on the logic of collective action, we formulate the dependency between the value of membership for the individual members and the size of the group. Our results show that the utility of membership loses its value as the group grows, so that every member features a certain critical number of group members, above which his or her total utility from membership becomes zero or negative. When this number of group members is being reached, the mentioned member is being put in a strategic decision situation in which he or she needs choose their strategy.

Members' tendencies and preferences for action change along the growing process of the group as described by our model of exit and voice in section. Our hypothesis is that the member has a stronger tendency to raise protest as long as the group is rather small. As the group grows, the costs of voice increase and at the same time, the chances to influence the group and its decisions decrease. In a large group the unsatisfied member would therefore more probably prefer exit over voice or acquiesce. However, in this analysis we show that there is no significance to whether the individual member chooses to exit the group or to prevent the entrance of a new member by protest. The mere fact that total benefit of the membership has been exceeded by an alternative is enough to cause a stall in the process of growth. The resulting growth process is shown to be limited and feature a sigmoid form.

The possible conflict between the interest of the organisation to expand the number of its members in order to encounter market power, and that of the individual members to keep the group small, creates varying challenges for the organisation's management. This insight is crucial for the understanding of the character of cooperatives in general, and the necessity of adapting management techniques to the size of the group in particular. However, a system oriented observation of the co-operative group in its market environment might suggest that a non-growing group not necessarily means malfunction of the organization in the socio-political sense. Under certain conditions the

organization actually acts as a social elevator within its market environment, as we demonstrate in the seventh section of this work.

## 2. The Position of Co-operatives in Agricultural and Food Markets

Agricultural co-operatives make a convenient subject for investigation, since they typically feature traditional co-operative characteristics. Most of the assumptions taken in the following analysis probably apply to agricultural co-operatives better than any other kind, such as banks etc. The production of agricultural products is inherently bound to land. In the case of animal husbandry for instance, it is the need to provide the stock with roughage, a factor which is hardly tradable and hence needs to be produced on the own farm, which determinates a certain spatial distribution of agricultural production. Agricultural commodities are especially characterised as bulky and perishable, which restricts their geographical mobility and implies high transportation costs, creating spatial markets. Both processors and producers are highly specialised. A given farm product can usually not be substituted by other inputs, nor can it substitute another one. High specialisation on the production as well as on the processing level and high sunk costs implying high exit barriers for farmers and an inelastic supply (ROGERS and SEXTON, 1994), bound farmers to handlers and limit their choice of purchasers for their products. In case of losing access to a certain first-handler, farmers are forced to seek for alternative – sometimes distant – purchasers. This reduces the value of the product for the farmers by sacrificing a larger share of the profit to transportation costs. These characteristics lead to spatial markets and – at least regionally – increased buyer market power at the first-handler level.

In order to countervail oligopsony power in agricultural markets, agricultural producers incorporate into co-operatives, facilitating the marketing and/or processing of their product, in which they can also influence the price they receive. Private agricultural product traders are thus forced to adapt their prices to the competition delivered by co-operatives. Hence, the existence of co-operatives in mixed markets influence the price level in the whole market, and by that, prevents it from falling too low. The notion that a co-operative may have a salutary effect on its rivals' pricing behaviour is known as the "yardstick of competition" (SEXTON, 1986b, 1990) hypothesis. However, this

market-regulation effect is obviously an open resource, as not only members of the co-operative, but also the rest of producers on the market, benefit from this regulation effect. Moreover, as private actors set their trade conditions to compete with a present co-operative, opportunity costs are being created also for co-operative members. The co-operative needs therefore to keep its performance on at least the level of the market, in order to justify its existence. In order to keep up with competition on modern agricultural and food markets, the co-operative is bound to adapt its structure to a competitive size. However, in order to achieve that, it is forced to expand the dimensions and complexity of its activities, a task that would bump into internal resistance at some stage, as we further discuss in the proceeding section.

## 3. Growth Limitations of Co-operative Organisations

The co-operative is by its nature a hybrid organisation. Except for being an economical enterprise it also functions as a group in the social and socio-psychological sense. A crucial prerequisite for its durable stability as an organisation, even for its mere existence, is the commitment of its members (FULTON, 1999). As demonstrated by Fulton (1999) co-operative ideology is a significant driving force for the formation of co-operatives and has a significant impact on the members' behaviour as well as on the co-operative performance. Owning and controlling the organisation is the differentiated product that makes at least some members prefer making business with it, rather than with a competing IOF. However, facing growing dynamic in modern agricultural and food markets, co-operative ideology is evidently breaking down (FULTON, 1999). At the turn of the century the relation of the members with their co-operative was strongly based on a social rather than commercial, balanced rather than hierarchic, cooperative rather than competitive and membership- rather than business-oriented character. Modern co-operatives however, seem to feature an opposite image, characterised by an isolated – market typical – interdependency, a hierarchic rather than democratic power distribution, conflicting rather than harmonic attitude and a commercial business rather than personal member orientation (ZIEGER, 2008). These developments loosening the cohesion between the members and between them and their co-operatives are undoubtedly impelled by – among changes in the social, cultural and economical environments of the co-operative existence – the growing structure of the memberships.

However, as this work is attempting to demonstrate, the relationship between the group's structure and the behaviour of its members is bilateral and interdependent. As the group grows and the commitment of its members erodes, their behaviour is changing accordingly. With a weakening cohesion, the members' tendency to abandon the organisations for the sake of realising other opportunities is growing dominant. Analogue to sinking birth- and growing death-rates in natural populations (LASOWSKI and KÜHL, 2006), the changing members' "traffic" into and out of co-operatives as a result of their size cause a limitation to the growth capabilities of co-operative groups. Thus the growth of the co-operative group is being regulated analogue to growth regulation of natural populations, whereas in our case the members do not parish, only vanish. This "natural" property might be a handicap for co-operatives facing the demands of modern agricultural and food markets.

## 4. The Membership-Value Model

The following model is designed to delineate a co-operative enterprise purchasing a single homogenous product from its members, adding to its value and marketing it. The co-operative is assumed to be acting as price taker on the market. The costs of the enterprise's activity is assumed to be a convex function, and due to a set price received on the market, the earnings a concave function of the processed quantity. Co-operative members are assumed to judge the desirability of membership on the basis of the incumbent firm's prevailing price, whereas members are price takers in respect to dealing with the co-operative as well as with a competing purchaser (SEXTON, 1986a). Acting according to individual rationality, each agent would remain member in the co-operative group as long as she receives at least as much as from acting unilaterally i.e. marketing the product otherwise (SEXTON, 1986b, STAATZ, 1987, ZEULI and BENTANCOR, 2005).

Consider a group of $G$ members who join forces to produce $M(G)$ units of a certain co-operative product which they sell on the market for a certain price $P$ [3]. The total costs of producing the co-operative product feature the same dependency on the quantity as non co-operative products. When the demand for production capacity exceeds a critical

[3] The market is assumed to be large enough, so that the group is considered as price-taker i.e. the quantity produced does not have an influence on the market-price of its product.

level, the production cost of each additional unit will no longer decrease, but rather increase over-proportionally. The progression of the average production costs curve $K = f(M)$ is therefore assumed to feature the classical U-Form (OLSON, 1965 p. 21). The co-operative costs $K$ and the revenues $W = PM$ are distributed between the members according to their relative portion on the total production quantity of the group, so that $K_i = (m_i/M) \cdot K$ and $W_i = (m_i/M) \cdot PM$, whereas $m_i$ represents the portion of member $i$ in the total production $M$ of the co-operative and $K_i$ and $W_i$ are respectively the member's shares in the resulting costs and revenues. In order that the members take part in the co-operative, there must be a positive utility for each of them (OLSON, 1965, SEXTON, 1986a, ZEULI and BENTANCOR, 2005). $\Pi_i = W_i - K_i \geq 0$ is therefore the gross value of membership for each member *i*. Moreover, each of the members could market the same product alternatively, either alone or by utilising the services of another source, having alternative costs $Ka_i$ and achieve alternative profits $\Pi a_i$ (SEXTON, 1986a). The options for profits which the members face are hence,

$$\Pi_i = W_i - K_i = m_i P - (m_i/M)K = m_i\left(P - K/M\right)$$

or

$$\Pi a_i = m_i P - Ka_i .$$

The quantity $m_i$ that the member would alternatively market is assumed to be the same as his or her share on the cooperative production, and they would sell their product to the same market price. In order that they take part in the co-operative, the profit that they achieve by the membership[4] must be higher than that, which they could achieve by their own. The condition for membership is therefore $\Pi_i - \Pi a_i = m_i(P - K/M) - m_i P + Ka_i \geq 0$. The difference on the left side of the equation we mark as $\Psi_i$ the net value of membership and its positive value is a necessary condition for membership in the group:

$$\Psi_i = Ka_i - (m_i/M)\,K \geq 0$$

[4] No attempt is done here to quantify the portion of individual non economical motivations' fulfilment in the composition of the total utility the member receives from membership. It is enough to measure the cost, for which the member would exit the group, as an indicator for his or her total utility.

Or:

$$Ka_i \geq \frac{m_i}{M} K$$

Thus, it becomes obvious that the member's share in the cooperative production costs must be smaller than the costs which would be caused by the alternative marketing. Assume that the production quantity of the co-operative must be expanded by a unit of quantity for each entrance of an additional member to the group. When the convex cost function begins increasing over $[0, M(G)]$, the condition for membership cannot be guaranteed. We should then expect the net value of membership to become zero or negative at some stage for any member[5].

**5. The Complementary Strategic Options: Exit and Voice**

Consider a co-operative of G members is considering the option to accept an additional member. One of the group members disagrees. The group's size has reached its limit for her; the membership still yields a positive value for the member at this point, but any further growth would cause the exceeding of her price-threshold. Since the member's alternative production costs are about to be exceeded by her share in the cooperative production costs, she now needs to make her strategic choice between "exit" and "voice" (HIRSCHMAN, 1974). The option to exit means that the member could leave the group and produce her product independently. As a result of this choice, the group loses one member, so that the number of members in the group drops shortly to G-1. After the member's exit, the group would accept the new member and even up its size back to *G*. At that point, the group would reach its original size again, which would have justified for the exiting member to remain in the group. Since there is a positive probability of influencing the group's decision and preventing the new member's entrance, voice would be the rational choice. Moreover, the option to exit is not eliminated by the option to protest. As Zhu, Hendrickse and Krug demonstrated (ZHU, HENDRICKSE and KRUG, 2006), exit not only remains as a last resort, but underpins member's voice making the threat more credible, and can therefore also be used as an instrument of pressure by the protesting member. By choosing the option "voice", the

[5] We assume a heterogenic group. Otherwise the membership would lose its value for the whole group at one point.

member could raise a protest and by that, try to prevent the further negative development of the group. Among the loyalty of the member to the group and the uncertainty, considering the further negative development of the organisation after her – perhaps irreversible – exit, one of the main determinants for the choice of "voice" is how high the member estimates the chances to influence and amend the organisation.
In case the member chooses the option "voice" and raises her protest, there is a chance $P(w)$ for an effective protest, and that the entrance of the new member into the group can be prevented. This chance is depending on the total number of group members and on the relative share of the protesting member in the total production. The size of the group determines the following factors:

- The probability of determining the outcome of a democratic election becomes lower the bigger the group grows[6] (TAYLOR and YILDIRIM, 2005, BORCK, 2002).
- The costs of voice increase since there is a larger number of persons that need to be reached (DOWNS, 1957) and
- The probability to influence the group decreases with increasing anonymity in the group and decreasing interaction intensity within it (BUTLER, 1988).

Therefore, the bigger the group the smaller is the chance to influence it. Indeed, the member's share on the total co-operative production is another determinant for his or her influence on the group. The bigger the relative share $m_i$ of the objecting member $i$ in the total co-operative production, the greater is the influence she has on the group. However, the relative share of the individual member on the total production also decreases as the group grows. In case the strategy of voice is successful after all, the member succeeds to prevent more new entrances, and holds up the growth of the group for a longer period before she exits[7]. In that case, the protesting member has her aim achieved, she remains a member in the group and the group maintains its size $G$. If the

[6] Typical to cooperatives is the principle of "one person – one vote".

[7] *P(w)* is also depending on the form of government; a cooperative is assumed to have a free entrance, whereas in a club, the members have more influence on the process of new members' selection and acceptance

protest is not effective, the new member is being accepted and the number of members in the group shortly rises to $G+1$. The unsuccessfully protesting member exits at this point and the number of members drops back to $G$.

The member that we are observing is facing two alternatives with three possible outcomes. The first alternative is to leave the group and acquire his or her share on production or service from another source and for a price known to this member. We assume that the outcome of the choice to exit is certain and known to the agent, since the member is either aware of an actual alternative source, or has already included the risk discount factor into the calculation of "his" or "her" alternative costs $Ka_i$. The choice of voice has two possible outcomes; either the member is able to influence the rest of the group and prevent the entrance of the new member, in which case the group maintains its initial size it had on the beginning of the day, or the new member is being accepted. However, in case the loud protest is not effective, and the group decides to accept the new member in spite of it, the protesting member still maintains his or her option to exit the group. In this case, our observed member whose share on the common production costs has been exceeded would take the rational choice and exit the group for the sake of her – now lower – alternative production costs. Again, the total number of members in the group remains the same as at the beginning of the day.

The situation in which a co-operative group is about to decide whether to accept a new member, an option to which a member in the group objects, is a strategic decision situation for the member. The different stages and consequences of that decision process for the member and for the group will be considered in the next section.

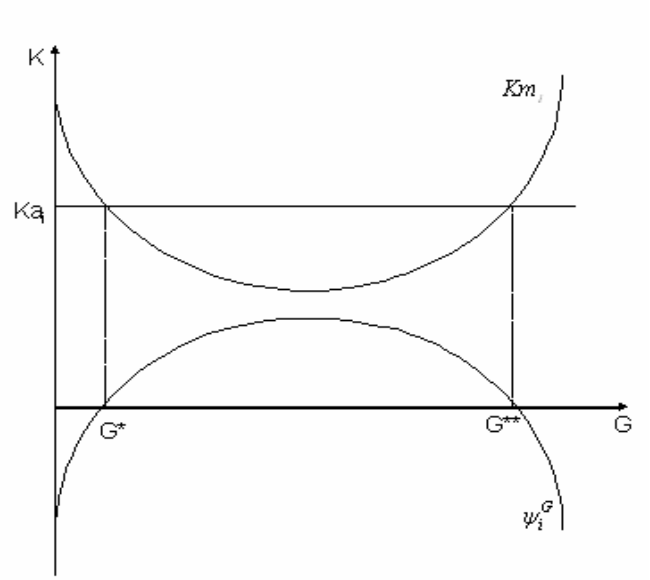
### *6. Modelling Exit/Voice Preferences of Group Members*

Consider a co-operative member $i$ who draws a net value $\psi_i^G$ from membership, attained by the difference between her alternative costs for offering her product on the market $Ka_i$, and her relative share in the co-operative costs $Km_i$. As the total co-operative costs is a convex function of the number of members in the group $G$, this difference is a concave, continuous and twice differentiable function over $G$ such that $\partial^2\psi_i^G/\partial G^2 < 0$ for all $G$, and there exists a range $[G_i^*, G_i^{**}]$ of the number of co-operative members, in which the membership in the group creates a positive utility for member *i*, so that

$$\begin{cases} \psi_i^G > 0, & G_i^* \le G \le G_i^{**} \\ \psi_i^G < 0, & otherwise \end{cases}$$

As explained in the preceding section 4, only in this range of positive utility of membership, the condition for membership of member *i* is being fulfilled.

**Figure 1:** the relations of membership costs and net-utility functions (own illustration).

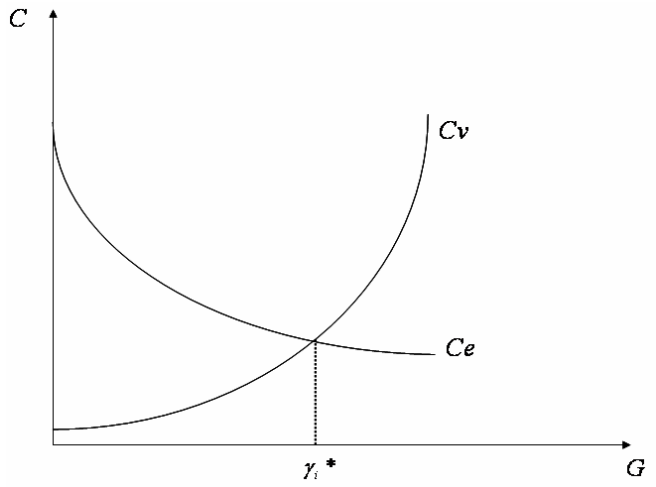



We now observe the situation in which the group has reached the size $G^{**}$ for which $\psi_i^{G=G^{**}} > 0$. For $G^{**}+1$ the net value of membership would be negative for the observed member $i$. The observed member has now the choice between three options: exit inducing costs $Ce$, voice inducing costs $Cv$, acquiesce, i.e. accepting the entrance of a new member and taking on a negative value of $\psi_i^G$ which we mark as the cost $Ca$. In addition to the direct costs of reorientation and adjustment, the costs of exit include also the risk involved and the loss of intrinsic surplus caused by breaking the member's commitment (or loyalty) to the group and switching to another business partner. Since the commitment to the group is declining as the group grows and anonymity of the individual member rises, $Ce$ is considered as a positive and declining function of $G$. On the other hand as the group grows, the costs involved in pivoting its decision[8] are rising, so that $Cv$ is a constant rising function of $G$. Therefore there is a critical size $\gamma_i *$ of

[8] We define *Cv* as the cost for the member to secure that the group decides to refuse the entrance of an additional member to the group.

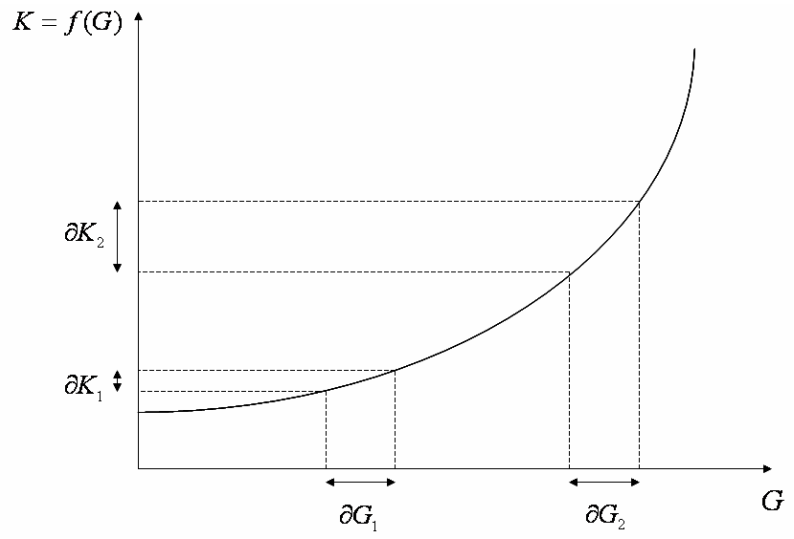
the group, for which $Cv > Ce$ when $G > \gamma_i *$, and $Cv < Ce$ when $G < \gamma_i *$. The advantage of voice over exit and vice versa, pivots as a function of group-size.

**Figure 2:** the relation between the costs of exit and voice as a function of $G$ (own illustration).



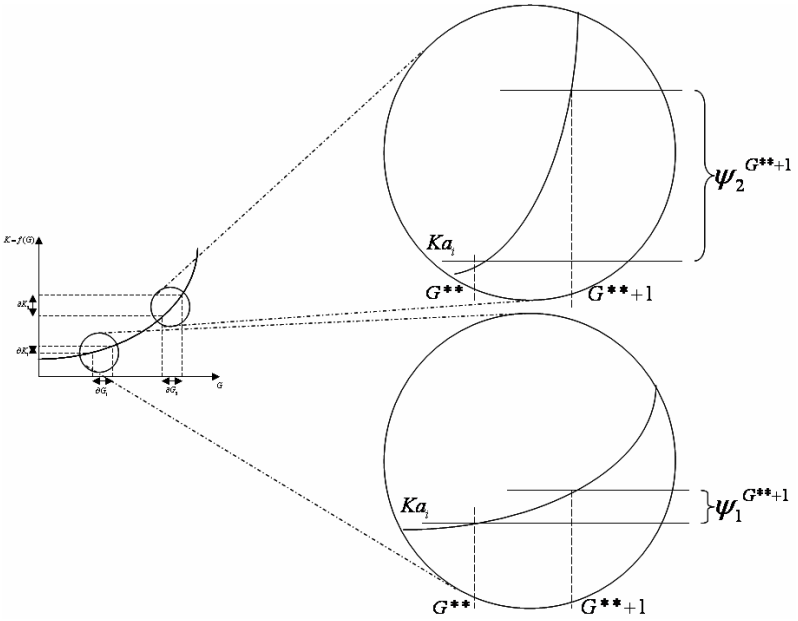

At this stage we need to take a closer look at the cost of acquiesce $Ca$. As defined before, the total cost function of the co-operative enterprise features a convex U-form. We shall now concentrate on the right half of the curve, the range in which the costs are rising as a function of the produced quantity, and therefore as function of the number of members in the group. Let $\partial G_j$ represent an addition of one member to the group at any point *j* along the cost function curve. It is easy to see that the resulting rise in the total production costs $\partial K_j$ of the group is growing with the number of group-members *G*. For a graphical presentation refer to figure 3.

**Figure 3:** the average total costs of membership as a function of group size




Each group member has a point on this curve, at which it accedes "his" or "her" alternative cost $Ka_i$ which can be located anywhere between the points $G^{**}$ and $G^{**}+1$. The costs of acquiesce is the actual negative utility from membership when the number of the members in the group has reached $G^{**}+1$. This negative utility can take any value in the range $[0, \psi^{G^{**}+1} - \psi^{G^{**}}]$. This range however, is a growing function of $G$ due to the convexity of the total cost function. As graphically demonstrated in figure 4, the maximal value $\psi^{G^{**}+1} - \psi^{G^{**}}$ that the cost of acquiesce can take is a rising function of the number of members $G$. Inversely phrased, when the group becomes bigger $Ca$ can get much higher than it could if the group was still small. The payoff from acquiesce is, by definition of the point $G^{**}$, negative. However, the absolute value that this loss can take is also a function of $G$.

**Figure 4:** the different possible values of negative utilities from membership as a affected by the number of group members




## 7. Results of the Exit/Voice Decision Model

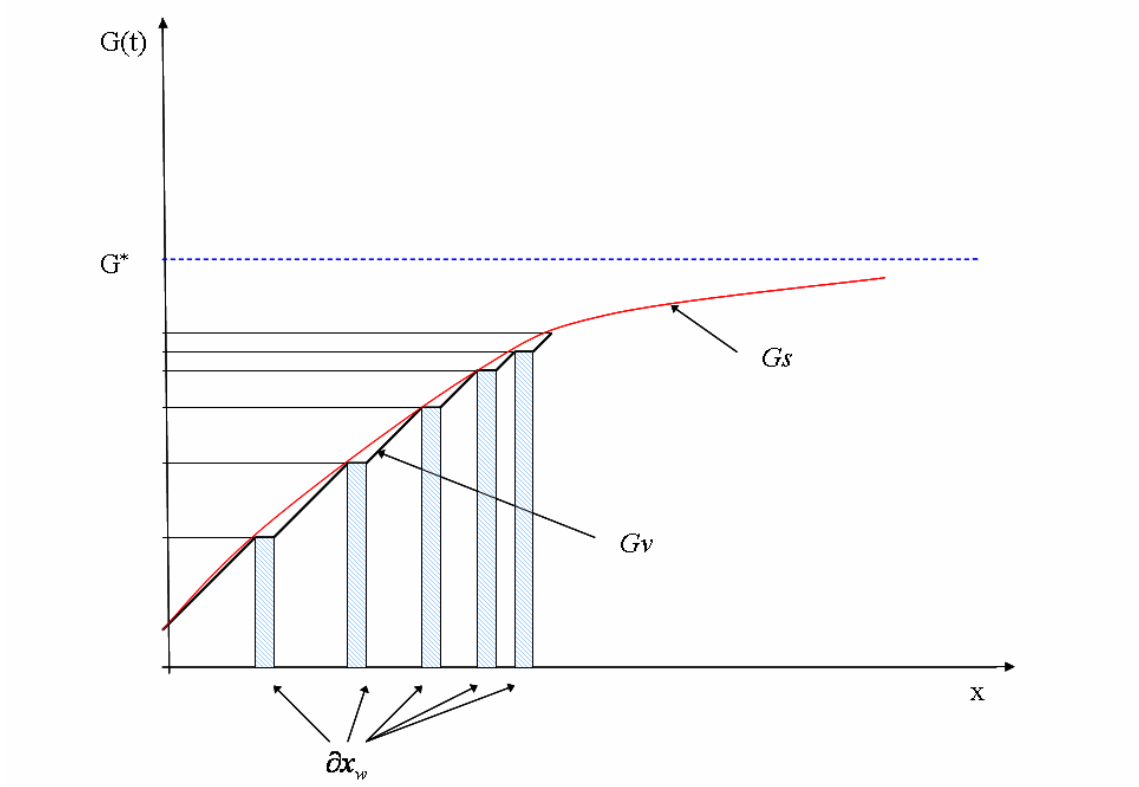
For the first stage of the decision model we need to differentiate between two possible situations: first, when (1) $G > \gamma_i^* \Rightarrow Cv > Ce$, and second, when (2) $G < \gamma_i^* \Rightarrow Cv < Ce$. If situation (1) is the case, the member chooses the option of exit and lives the group. The resulting payoff for the member is then $-Ce$. In case situation (2) occurs, the rational choice of the member would be the option voice, in which case the member's payoff is $\psi_i^{G^{**}} - Cv$. This payoff is either positive or negative, whereas, as shown in figure 2, the bigger the group the higher becomes the probability that this payoff is negative, and even worse than the payoff of exit. For the second stage we need to compare the first two options, exit or voice, with the option to acquiesce. The payoff from acquiesce is, by definition of the point $G^{**}$, negative. However, the absolute value that this loss can take is also a function of $G$. Although we can not formulate a rule for the advantage of one option over the other, since these are determined by the concrete situation and by random factors, we can claim a rule about the effect of membership size on the advantage of any particular choice over the other. The larger the group of co-operative members, the higher is their rational tendency to exit and leave the group rather than to accept its development or to raise protest and try to influence it.

## 8. Modelling the Implications of Exit/Voice Preferences for the Group-Growth

As shown in section 1.4, the internal result of the decision the individual member makes between “exit” and “voice”, has no significance for the development of group size at the end of the day. The tendency of the members to choose “exit” over “voice” or “acquiesce”, and its development according to the size of the group, is indeed significant for the understanding of group dynamic in general and of co-operative groups in particular. But it is the mere occurrence of the decision situation itself, which has the direct influence on the group’s growth. Whatever the outcome of the decision is, whether a new potential member is rejected, or one of the group members exits, there is only one possible consequence of each case when member’s objection to the further expansion of the group occurs; the growth process stalls. The only thing that changes is the frequency of these occurrences, and the number of new potential members, who are rejected, before one (the objecting) group member exits. The frequency of occurrences is a function of the total average production costs of the cooperative. The number of times a member can prevent the acceptance of a new member is a function of his influence in his group. The total average production costs and the influence of the single member in the group are both functions of the size that the group has reached.

The resulting development of the number of group members is illustrated in the following figure 5. The illustrated development is the one resulting under the assumption of no influence of the members on the decisions of the group, namely the chance for effective protest set as null. The curve *Gv* illustrates the growth of the group as a function of the time *t*. Since we assume a constant appearance of new potential members per unit of time, we mark the abscissa with *x* instead of *t*. Thus we obtain a curve of the number of group members as a function of the accumulative number of new potential members, which could just as well be expressed as a time dimension without changing the character of the curve. At each point of the curve, where one of the members raises his objection to further growth, we obtain a delay of one *x*-unit in the growth (marked in figure 5 as $\partial x_w$). These incidences occur increasingly frequent as the group grows and its total average costs rise. Curve *Gs* presents the continuous approximation of the growth and *G** its limiting asymptote.

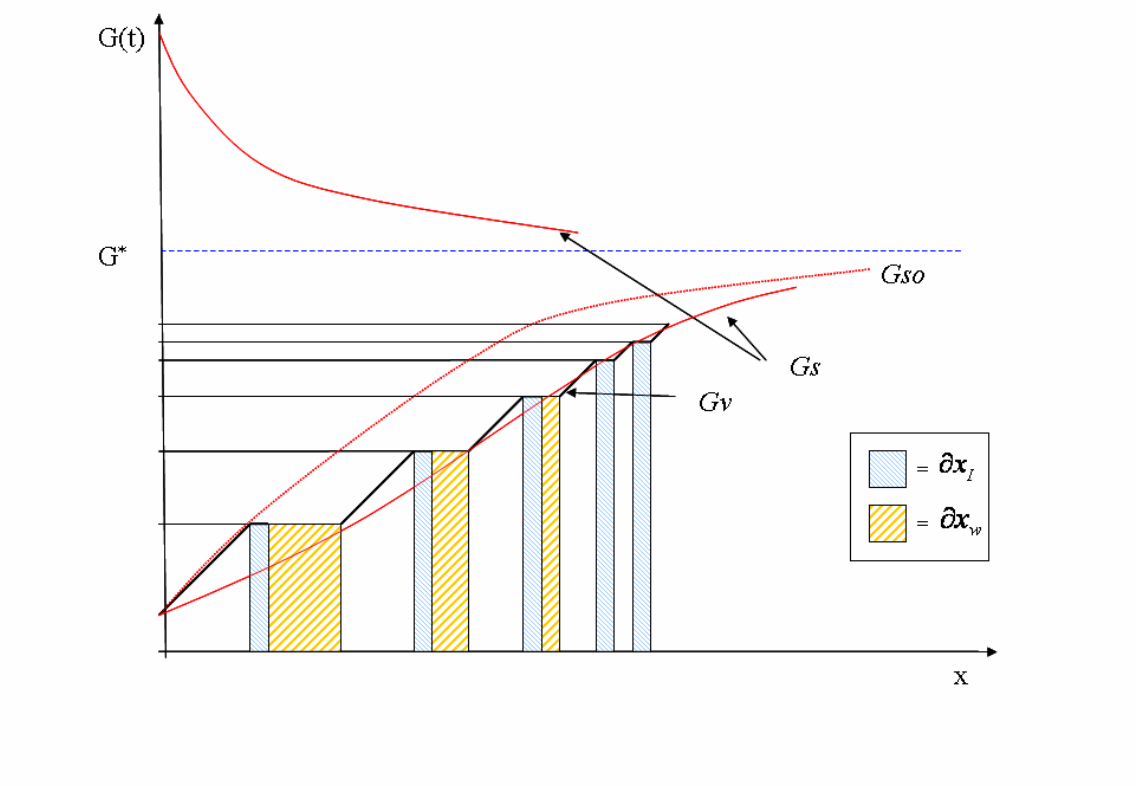
**Figure 5**: The growth in group size under the condition of no member influence on the Group ($P_0=0$). (Own illustration)




However, we do expect the members in the group to have a certain influence on decision making, especially as long as the group is still relatively small. This influence applies a certain chance bigger than zero, that a protest becomes effective. A protesting member can thus prevent the entrance of more than one new potential member, before he is forced to exit the group. This effect causes an adjustment of the lower part of the curve, which results in an s-formed curve, which converges to an upper limit. Figure 6 illustrates the situation, given an existent influence of the members in the group. Like in figure 5, curve *Gv* illustrates the process of group growth as a function of the *x*, the accumulated number of new potential members. At each point of the growth curve, where one of the members raises his objection to further growth, we obtain a delay of $\partial x_w$ in the growth. However in this case, the total delay is by the factor of the member's influence $\partial x_I$ (marked by the dotted arrows) longer than in the previous case. These incidences occur increasingly frequent as the group grows and its total average costs rise. Curve *Gs* presents the continuous approximation of the growth and *G** its limiting

asymptote. The dotted curve *Gso* is the development curve without the effect of members' influence, as taken from figure 5.

**Figure 6**: The growth in group size, under the condition of members' influence on the Group ($P_0>0$). (Own illustration)




Both growth curves are analogue to biological differential growth functions and can therefore be mathematically expressed and solved to predict the growth of a given group (LASOWSKI and KUEHL, 2006, KRABS, 1997, pp. 63). The main recognition relevant to our purpose in this work is that the growth in the number of members of a voluntary co-operating group is limited. Under a given set-up, the number of group members would converge to a certain limit, which it would not accede in spite of continuous traffic of members into and out of the group.

### 9. Self Regulation Attribute of Co-operatives in their Environment

The models of group growth in the preceding section point out the notion, that a group of co-operating agents features a limited ability to grow, which lies at its own nature. This feature implies an adaptation in the evaluation of co-operatives' performance. In this work we observe the co-operative as a group of individuals, in which each member

influences the behaviour of the group as a whole. Using strategic decisions theoretical principals while considering the complex interests of the group-members, their strategic choices and the power of the individual to influence the group, we point out that the members limit the growth of their own group. We also show that the natural development of the number of group-members, under a given set environmental economic conditions, will feature the asymptotic form, which is characteristic to biological growth processes. This might stand in contradiction to the common expectation from a prosperous organization to feature a constant growth in order to be evaluated as prosperous. However, just like in growth mechanisms of natural (and human) populations, the number of group members can only be expected to grow and converge to a certain limit, which it would not exceed without a change in its living conditions. Similarly to the availability of space and other resources, which need to be extended in order to allow constant growth of natural populations, limited members' benefits from membership limits the growth of a cooperative group.

This attribute of limited growth capability has been recognised and described by several scientists already. However while quite a few Authors find a conflict between the interest of the co-operative to extend its membership in order to obtain competitive market positions through economies of scale (e.g. FULTON, 1999) or to raise capital (e.g. NILSSON and OLLILA, 2008) and between the danger of losing on member adhesion and commitment, demanding adaptations of management strategies and organization structures to confront this problem (NILSSON and OLLILA, 2008, FULTON, 1999, BUTLER, 1988), we relate a rather self regulative characteristic of the co-operative in its environment. For this purpose we observe the co-operative as a population and its behaviour as the behaviour of the sum of its members. Also the performance of the organization is therefore just as good as the sum of its members is wishing it to be. Those particular members, who are not satisfied with the performance of the group to the extent that they prefer an alternative, and for whom the cost-benefit relation of attempting to influence it is disadvantageous, exit the organization. We can therefore claim (and many empirical surveys seem to support this) that the members of the group are basically satisfied with it. Those who are not satisfied are not members (anymore). As contrary to the tendency of organization performance-evaluation concepts, which often name growth as a necessary indicator of success, we claim that a

non growing group should not be considered as unsuccessful. For the sum of its members it is actually just as successful as it could be considering its environmental circumstances.

The net number of group members is therefore only an external characteristic of the organization. Even after the group has accomplished its phase of growth and the number of its members does not seem to change, the movement of members into, through and out of the group still continues as an internal activity of the vivid organization. While new members, whose opportunity costs are lower and therefore their net utility from membership is positive, continue entering the organization, the total number of members is only balanced by other members who exit it. Those who exit the organization are those members who feature higher market chances and whose opportunity cost of membership exceeds its utility. The logical consequence of this observation is that the organization is performing as a market elevator, where weaker members continuously enter whilst stronger members leave it and return to the market at a much improved position. This performance of the organization might be latent to the observer at first sight. But if the two conditions are fulfilled, namely a constant number of members in the organization and a continuous movement of members "through" it, we can emanate from it that the organization is playing a formidable role in shaping and regulating the market environments within which they act.

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