PRODUCER COOPERATIVES: A TRANSACTION COST ECONOMIC APPROACH
AGENDA
why transaction cost economics?

“fertile economic theory”

Gibbons, 2005

1. Appropriate - existence, boundaries and internal organization of governance structures
   (Foss, 1996);

2. Used to study a variety of organizational phenomena
   (Baker, Gibbons and Murphy, 2008; Oxley, 1997; Kogut, 1988; Demil and Lecocq, 2006);

3. Focus on contractual frameworks that regulates transactions between buyers and supplier
What is a cooperative?

“hybrid organizational form”

Menard, 2007; Iliopoulos, 2002; Chaddad, 2012

WHAT
Autonomous association
Voluntarily united
JOINTLY OWNED

WHY
COMMON GOALS

WHICH

TRANSACTION COST ECONOMICS

MARKETS
PRICE MECHANISMS

FIRMS
AUTHORITY

HYBRIDS

BILATERAL
MULTILATERAL
COOPERATIVES
What is a cooperative?

“hybrid organizational form”

Menard, 2007; Ilioupoulos, 2002; Chaddad, 2012

Autonomous association

Voluntarily united

Democratically governed

COMMON GOALS

Jointly owned

Markets

Price mechanisms

Firms

Authority

Hybrids

Bilateral

Multilateral

Cooperatives

Transaction cost economics
Why do cooperatives exist?
“because firms are also costly”

**WHY DO FIRMS EXIST?**

Cost in using market mechanism:
- relevant prices,
- haggling over prices,
- separate contracts for each exchange transaction.

Coase (1937)

**WHY DO CO-OPS EXIST?**

Cost also in using firms (drawbacks of integration)

Centralization of activities in the POF

Decrease on individual costs
Which transactions should cooperatives regulate?

“governance structures are tailored to meet transaction attributes”

Williamson, 1981

<table>
<thead>
<tr>
<th></th>
<th>Frequency (long short)</th>
<th>Uncertainty (coordination)</th>
<th>Asset specificity (investment)</th>
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<tbody>
<tr>
<td>Markets</td>
<td>low</td>
<td>low</td>
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<tr>
<td>Firms</td>
<td>high</td>
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<tr>
<td>Hybrids</td>
<td>medium</td>
<td>medium</td>
<td>medium</td>
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<tr>
<td>Co-ops</td>
<td>High (no end term)</td>
<td>Medium-Low (size)</td>
<td>Medium-high (two sides)</td>
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How are cooperatives internally organized?

“The governance mechanisms shape governance structure, and consequently their comparative costs and competencies”

**Williamson, 1981**

<table>
<thead>
<tr>
<th>WHAT</th>
<th>WHY</th>
<th>WHICH</th>
<th>HOW</th>
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<tbody>
<tr>
<td>INTRO</td>
<td>COOPERATIVES</td>
<td>CONTRACTS</td>
<td>more elastic than markets’ one, but more legalistic than firms’ one</td>
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<td></td>
<td></td>
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<td>- Vertical and horizontal relationships</td>
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<td>- Adaptive clauses (procedures)</td>
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<td>- Delegation</td>
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<td>- Homogeneity (standardization- efficiency)</td>
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<td>ADAPTATION</td>
<td>Autonomous coordinated</td>
<td>adaptations are neither strict autonomous nor coordinated</td>
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<td>self-interested bargaining; time to coordinate -&gt; costly</td>
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<td>INSTRUMENTS</td>
<td>Incentives &amp; Controls</td>
<td>- trade-off between the gains obtained through coordination, and the costs incurred to suppress incentives through additional controls.</td>
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<td>- Informal controls (trust, socialization, culture, reputation).</td>
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Where are cooperatives boundaries?

“a firm becomes larger as additional transactions are organized by the entrepreneurs”

\[ \text{costs of organizing an extra transaction within the firm} = \text{costs of carrying out the same transaction through markets} \]

\[ \text{costs of coordinating an extra transaction within the POF and between the members} = \text{equal to the costs of carrying out the same transaction through markets or firms.} \]

Coase, 1937
## DISCUSSION

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<th>THEORETICAL</th>
<th>PRACTICAL</th>
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| • Pure TCE approach to Co-ops  
• Differences between bilateral and multilateral hybrids  
• Make-or-buy to make-or-buy-or-cooperate | • Elucidation of economic rational behind co-ops (encourage total market efficiency);  
• Design better incentives (YC 2012) |