

## 7. Conclusions

Since the modern evolution of the cooperative model, building on cooperative principles such as those promulgated by the nineteenth century English Rochdale Pioneers, the cooperative form of enterprise has proved an enduring addition to the spectrum of organisational types commonly employed in commerce. Internationally the model has found particular application in the processing and marketing of certain agricultural products, and in producing and retailing certain agricultural supplies.

It would be inaccurate to suggest, however, that the cooperative model arises uniformly throughout agriculture. Particular sectors, such as dairy processing, exhibit features commonly predicted, and found, to be associated with successful cooperative organisation. Key among these are multiple competing suppliers providing a perishable product to processors and marketers, with those processors and marketers enjoying some measure of market power. However, these features are of themselves not sufficient to warrant cooperative rather than some other form of organisation. Homogeneity of interest among cooperative owners is also a critical factor, reducing the costs of cooperative ownership. In turn this homogeneity of interest is facilitated by product homogeneity – again, milk is the archetypal example (although even milk is increasingly differentiated) – as well as the cultural homogeneity, and stability, of the cooperative owners. Rural populations perhaps exhibit cultural homogeneity and stability more than do other subsets of the population, which would contribute to the relative success of the cooperative model in agriculture.

In other agricultural sectors these features are not present, and cooperative organisation is correspondingly rare. Wool, fishing and forestry are examples of sectors where product or producer heterogeneity, adequacy of contract markets, and market power in production (counter-veiling any such power in processing and marketing) diminish the viability of cooperative organisation. Not only do these features raise the costs of cooperative ownership, but they undermine one of its key rationales.

Increasing competition in global agricultural markets, combined with a greater range of strong consumer preferences, increases the imperative for agricultural producers to both differentiate their products, achieve scale economies in processing and marketing, and to coordinate along the supply chain to provide better channels of communication between producers and consumers. Agricultural cooperatives are one means of achieving this coordination, but for the reasons just mentioned cannot be a panacea for all agricultural sectors. It is clear, however, that they provide an effective means of doing so, in sectors where cooperative organisation is viable.

The ability of cooperatives to adapt to such changing imperatives is an important challenge. Theoretical and empirical research indicates that cooperatives face capital constraints not shared

by certain types of IOFs (those with listed shares).<sup>24</sup> Other types of IOFs, such as those unlisted IOFs common in New Zealand, arguably face similar capital constraints. Organisational adaptation has been an important strategy for increasing cooperative scale and competitiveness. In New Zealand – more so than in other countries – this adaptation has been facilitated by cooperative legislation that is less tied to particular cooperative principles than elsewhere, and which provides considerable flexibility as to the particular cooperative model adopted. Such flexibility is important for enabling variations on the traditional cooperative model that improve the efficiency of capital utilisation, access to capital, and the associated incentives for investments in innovation and value-added processing. In the international context cooperatives suffer certain inherent disadvantages relative to IOFs, but also enjoy unique advantages. Among these are their perceived reliability, product quality and ethical standards.

Whether or not the presence or absence of cooperatives in New Zealand agriculture presents policy issues hinges largely on whether there are artificial reasons for cooperative existence. These might include barriers to cooperative evolution, or unfounded policy preferences over other organisational forms. Alternatively, cooperatives may generate significant external benefits warranting their preference in policy. In the US a policy preference for cooperatives has been justified in terms of their perceived pro-competitive effects in mixed industry structures, and we expect that preference will have been influenced by the political economy of cooperatives, although we have not explored this element.<sup>25</sup> Evidence exists for the cooperative competitive yardstick effect, but research also indicates that it can be limited to certain types of cooperative, particularly those with open membership. In any case such a pro-competitive effect does not automatically justify policy preference, especially where cooperatives would arise in the absence of such preference, or where cooperatives give rise to inefficiencies not shared with IOFs. Our analysis of cooperatives in New Zealand agriculture suggests that cooperatives tend to arise without the benefit of policy preference, and their pro-competitive effects are often likely to be in export markets. Hence the assessment of policy preferences for cooperatives in New Zealand will differ from that applied in jurisdictions where cooperatives operate primarily in local markets, and/or where there is a significant IOF presence.

Finally, in general terms it would appear fair to presume that cooperatives in New Zealand exhibit a reasonable measure of “adaptive efficiency”. Cooperatives adopt adaptations, such as fair value share pricing, where traditional modes of cooperative organisation are a constraint. Some cooperatives abandon the cooperative model to become IOFs. In other cases, cooperatives merge or fail, or new types of cooperative emerge where they formerly did not exist. Based on such a presumption, any consideration of public policy questions posed by the presence, dominance and/or persistence of cooperatives must therefore carefully assess the relative merits of the best available alternatives that can be achieved. It must also have regard to the costs of attaining those

---

<sup>24</sup> Although in declining or struggling industries this is predicted to be more true for IOFs, and NZCA advises that its members rarely encounter difficulties in raising capital (even if non-equity instruments are often used).

<sup>25</sup> See, for example, Moran et al. (1996a), and Hueth and Marcoul (2002).

alternatives. The case for policy intervention would therefore be stronger where the cooperative model has clearly failed, or proved uniformly superior. This has not been identified in our very broad and high-level analysis of the role and significance of cooperatives in the New Zealand agricultural sector. A neutral policy setting is therefore suggested, enabling alternative organisational forms to be properly tested by pressures in the product, input and capital markets, and also in the market for corporate control.