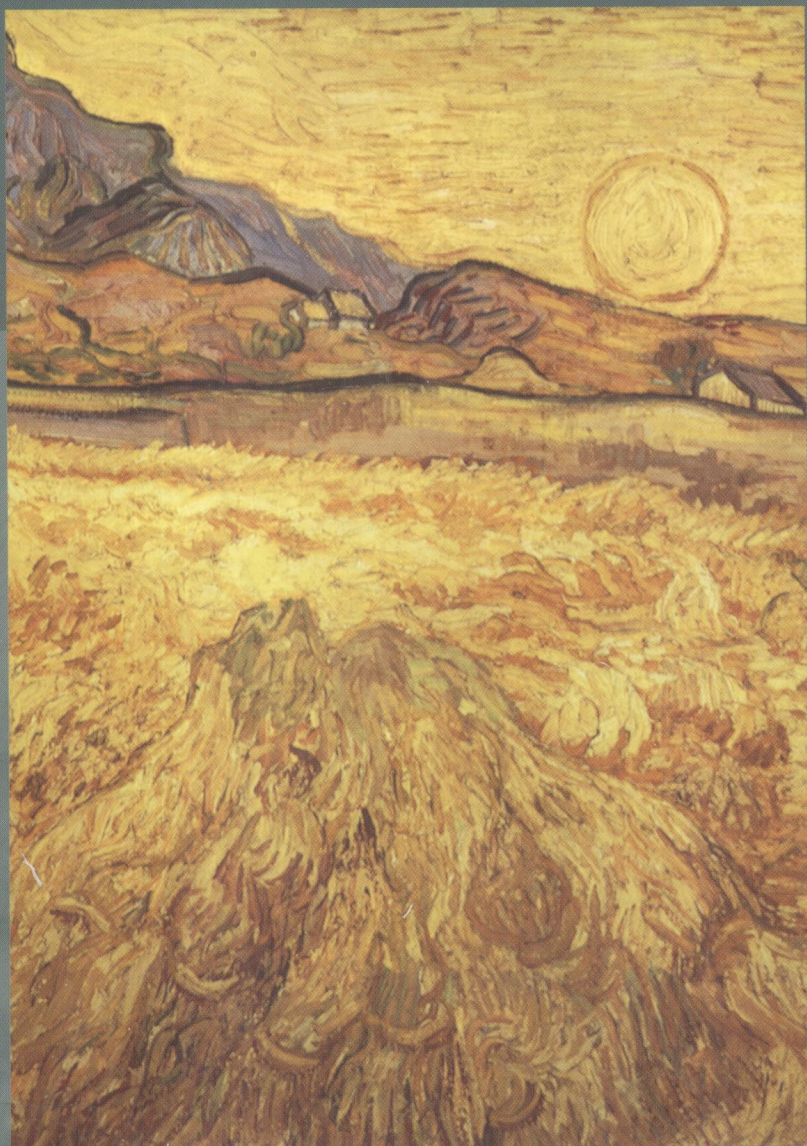


The Market Orientation of Cooperative Organizations

Learning Strategies and Structures for Integrating Firm and Members



Kyriakos Kyriakopoulos

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The market orientation of cooperative
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Learning Strategies and Structures for Integrating
Cooperative Firm and Members

Kyriakos Kyriakopoulos



E200100844

2000  VAN GORCUM

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The Netherlands institute for Cooperative Entrepreneurship, Straatweg 25,
3621 BG Breukelen.

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NUGI 659

ISBN 90 232 3561 4

Cover: Vincent van Gogh, Cornfield with reaper and sun, 1889, Collection Kröller-Müller Museum, Otterlo, The Netherlands.

Printed by: Van Gorcum, Assen, The Netherlands

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Preface

Today's cooperatives need urgently and critically to challenge their market strategies. Consider that customers have varying and diverse needs for price, quality, and food safety. Consider that markets are being deregulated due to changes in agricultural policy. Consider that competitors emerge from unexpected origins. Consider the changes due to information technology and the power shift to a handful of retailers. Cooperatives, overall, find themselves competing in a fluid and volatile environment. The certainty and stability that characterized the markets in the past markets is over.

Co-ops need then to learn continuously about the customers, sense trends, sway competitors, work together with retailers, and plan and implement concerted action in satisfying and creating customers. In short, they need to become market-oriented. Are cooperative enterprises, in general, prepared for this new environment? And more specifically what type of learning capabilities should they nurture? Does market orientation always pay off and in which way?

Not only do markets change but so also do the cooperative's members. Members become more diverse in many aspects. Next to large and entrepreneurial farmers, there are small and production-oriented ones. There are members who are patrons of the cooperative and others who do not. Some farmers are succeeded by their offspring but others not. Some members are eager to invest in value-added activities while others are not. Overall, the member homogeneity is also over.

Hence, as they become market-oriented, cooperatives are challenged to craft new organizational arrangements that bond better with their heterogeneous membership. Does the equal treatment principle serve all members well? Does the democratic principle of one man-one vote facilitate agility and flexibility in decision making? Does the collective and dividend-free member capital motivate members to invest in the cooperative? In short, are these traditional cooperative principles still relevant?

The markets and membership challenges are not only important on their own account; their interaction is important as well. Consider, for example, the following questions. How do members and the cooperative firm achieve a concerted response to the market? Which of the two is taking the entrepreneurial lead in satisfying and creating customers?

All these questions have triggered my research interest and convinced me to undertake Ph.D. research on the market orientation of cooperative organizations. The past three years, I have worked to conceive a comprehensive typology of cooperative traits based on a review of neoclassical, agency, game, and transaction cost theories. In addition, I have integrated ideas from organizational learning and marketing strategy research to conceive a broader definition of market orientation. A conceptual framework and a number of

propositions link cooperative organizational features with market orientation, and several organizational outcomes. A sample survey investigates the conceptual framework and a case study illustrates the role of members and the actual process of market orientation. All this provides the basis for further reflection on the organizational and strategic challenges of market orientation for cooperative leaders as well as implications for scholarship.

Getting this Ph.D. dissertation off the ground could not have been achieved without the help of many other people by means of scholarly insights, or advice, or practical support, or most importantly friendship. Having studied five years in Greece and five more years in the Netherlands there are a few people who must be named and publicly thanked for their impact on my work.

At the Agricultural University of Athens, where I graduated as an agricultural economist, I benefited enormously from my association with Prof. N. Maravegias who supported me in finishing my Bachelor studies and even more importantly in pursuing an academic career.

Prof. van Dijk has had a profound effect on my research scope and my professional development as a supervisor of both my Masters and Ph.D. thesis. With charm and charisma, he has triggered my intellectual interest in cooperatives and convinced me, as nobody else could do, that they can repay the research effort put in. Prof. Meulenberg's radiant and committing supervision combined with his youthful excitement about scientific research have been for me not only helpful and instrumental in bringing my research to a conclusion but also valuable inputs in the way I practise science. Prof. Nilsson has tolerated patiently my unstructured writing and made me realize that the structure of my work is as important as the content. His research on cooperative models has broadened my research approach to this area. I have benefited enormously from my association with Prof. C. Moorman. Chris has been a wonderful friend, mentor, and partner in research activities ever since I was a visiting scholar at the University of Wisconsin-Madison. She has my gratitude for introducing me to a "fresh" and challenging perspective on scholarly research.

I appreciate the valuable comments, practical support, and friendship of my colleague at NICE, Onno-Frank van Bekkum. The colleagues and faculty at the marketing department in the University of Wisconsin-Madison have also my thanks for their intellectual stimulation during my stay there as a visiting scholar. I would like also to thank my colleagues at NICE and at Nyenrode for their congenial attitude, Marieke Dijkers, Ingrid Pedro, and Katerina Karakoli for their logistical support, and Mike MacCulloch for correcting many language mistakes. I acknowledge the support from "IKY", the Greek State Fellowship Foundation, that has contributed to my Masters and, for a period of time, Ph.D. studies.

My family has always remained a strong and stimulating supporter of my endeavors ever since I was brought into life. They have taught me commitment, passion, and perseverance. Although I have neglected you in the last years, you have never complained but instead you gave me courage and energy when needed. Chantel Beuvink, ever since we met at Wageningen, continues to tolerate my academic "caprices", unconditionally to support and inspire me, and discreetly to remind me that life is not only confined to research. Chan, I promise you that I will take your reminder seriously.

Breukelen, January 2000

1 Introduction

1.1 Statement of the Problem

Agricultural cooperatives emerged in the 19th during the socio-economic upheavals bred by the industrial revolution. These upheavals resulted from economic and power disparities between perfectly competitive agriculture and oligopolistic farm out/in-put markets (Galbraith 1968; Nourse 1945). To cope with these challenges, farmers jointly integrated into the food chain through cooperatives relying on a set of unique organizational arrangements, referred to as cooperative principles. These principles made co-ops capable not only of raising the farmers' benefit but general welfare in a supply-oriented economy as well (Sexton & Iskow 1988; Van Dijk 1997). Essential to their success was a strategy of production maximization and cost efficiency.

Agricultural cooperatives today are confronting new challenges in their market environment: global proliferation of technology, reorganization of international economic boundaries, market deregulation, and heterogeneity in consumer behavior, mark a major economic shift from supply to market-driven competition (Achrol 1991; Day 1994). Marketing and strategy scholars argue that, under these conditions, putting the customer first as a business purpose (Drucker 1954), and staying ahead of competition, or shortly being market-oriented, firms are better equipped to respond to market requirements (Day 1994) and cherish a sustainable competitive advantage (Porter 1980; Kotler 1994).

How do cooperatives respond to this new challenge? On the one hand, it is suggested that traditional cooperatives' arrangements and principles point to a *production-oriented* strategy rather than market orientation (Nilsson 1998; Meulenbergh 1996). On the other hand, market-oriented programs are sprouting up as cooperatives struggle to become more responsive to market trends. Despite the fervor with market orientation and re-engineering, many aspects remain murky and confusing. Cooperative directors are especially puzzled on how to organize the ownership and control structure of their organization in order to facilitate market-oriented activities. Farmers are increasingly critical to the function of their cooperative failing to see the benefit or even feeling alienated from activities beyond the farm gate. Professional managers find it difficult to understand the challenges of market orientation are not confined to the cooperative firm but extend to their farmer-members enterprises as well. Various stakeholders - employees, trading partners, consumers, policy makers, activist groups - are increasingly concerned with the economic performance of cooperatives and their overall social contribution to matters of their own concern: supply chain efficiency, job preservation, sustainable growth, regional development (Van Dijk, Kyriakopoulos, and Nilsson 1997).

Many of the issues, such as these, that practitioners are confronted with, remain unanswered. Even worse, some of the criticism is product of considerable

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Several solutions to these problems have been tried: mergers with other cooperatives, downstream integration to value-added activities, internationalization, and more control granted to professional management. These solutions, however, have been a mixed blessing. On the one hand, they increase the exposure to value-added activities. On the other hand, they reveal a number of problems. As activities grow so does the complexity making members unable to control the activities of the cooperative firm. Increasing the decision freedom for the management, there might be a temptation to run the cooperative firm as an independent profit center, against the interests of members (Sexton & Iskow 1988). Because the cooperative equity is usually not tradable (no stock market for members' capital), members are deprived of the capacity to convey their preferences to, or even discipline the management, to their own benefit. Another concern is that the ownership of cooperatives impairs raising equity to support growth into value-added activities. Member investment in the cooperative is usually unallocated and does not receive any reward related to the performance of the cooperative firm. Instead, the members' reward is in the form of the price for their raw material handled by the cooperative. Members, rather than investing in the downstream activities of their cooperative, prefer to invest in their farm, expand their volumes, and increase their farm income.

Table 1-2: Market shares of agricultural co-operatives in the EU (1995)

<i>Market shares (%)</i>	<i>dairy</i>	<i>fruit & vegetables</i>	<i>meat</i>	<i>farm inputs</i>	<i>credit</i>	<i>grains</i>
Belgium	50	70-90	20-30			-
Denmark	93	20-25	66-93	64-59		87
Germany	55-60	60	30	50-60	-	-
Greece	20	12-51	5-30			49
Spain	35	15-40	20	-	-	20
France	49	35-50	27-88	50-60	-	75
Ireland	100	-	30-70	70		69
Italy	38	41	10-15	15	-	15
Luxembourg	80	-	25-30	75-95	-	70
Netherlands	82	70-96	35	40-50	84	
Austria	90	-	50	-	-	60
Portugal	83-90	35	-	-	-	-
Finland	94	-	68	40-60	34	-
Sweden	99	60	79-81	75	-	75
UK	98	35-45	+20	20-25	-	20

The organizational features of cooperatives have the potential of raising tensions between the firm and the members; equally contentious are their impact on the stability and unity of the membership. In some instances, because of their