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# Agency Problems in Norwegian Agricultural Cooperatives

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# Preface

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This working paper, which is written by researcher Svein Ole Borgen, has been published earlier in a shorter preliminary version (Borgen, 2001). It addresses the potential and shortcomings of agency theory as a framework for discussing some selected strategic issues within Norwegian agricultural cooperatives. The paper is motivated by the fact that a substantial number of scholarly contributions have recently applied agency theory as a framework for analysing the viability of the cooperative form. Borgen develops a critique of these contributions. He claims that the area of applicability of agency theory seems to be exaggerated, and that the implicit assumptions about human nature emerge as too simplistic. The recent applications of agency theory therefore turn out to be incomplete and its explanatory power is low. The arguments are supported by empirical illustrations from Norwegian agricultural cooperatives. The ambition of the working paper is to provide some guidance for our further research within this field. The working paper is written within the framework of two research programmes: i.e. “Norsk landbrukssamvirke, Fokus 2000+” and “Nye rammebetingelser for næringsmiddelindustrien”. The former is supported financially by the Federation of Norwegian Agricultural Cooperatives and the latter by the Norwegian Research Council. Thanks to Berit Helen Grimsrud for editorial assistance with the manuscript.

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Leif Forsell  
Director



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# Abstract

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The article evaluates the usefulness and shortcomings of agency theory as a framework for discussing the future of Norwegian agricultural cooperatives. The first argument is that agency theory ignores the significance of the traditional collective thinking in Norwegian agricultural cooperatives. In this respect, agency theory is incomplete and its explanatory power is low. The second point is that, nevertheless, the value of applying agency theory as a conceptual tool may increase in the close future, due to the emerging of novel industrial strategies and new cooperative forms. Some of the crucial agency-problems may come to the forefront, and increasingly imprint the agenda of Norwegian agricultural cooperatives.





# 1 Introduction

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Students of agricultural cooperatives are confronted with a diverse body of theoretical and methodological frameworks. Recently, the new organisational economics (Barney and Ouchi, 1986) has grown in popularity. This term covers the fresh theoretical contributions to organization theory from economics, among which transaction cost economics and agency theory are two core disciplines. Judged by the increasing number of scholarly contributions, both perspectives seem to be on its way up as a preferred analytical framework in the studies of cooperatives (Harte, 1997. Ollila, 1989. Nilsson, 2000). However, the conceptual and theoretical explorations have not been followed up by the same richness of empirical studies. In order to assess the value and shortcomings of the new analytical options, more empirically based studies of cooperatives based on agency theory and transaction cost economics are welcome. The purpose of this paper is to evaluate the usefulness and shortcomings of agency theory as a framework for analysing the future of Norwegian agricultural cooperatives. Focus is set on the conditions under which the agency problems are likely to be accentuated in cooperative organizations. My first major argument is that agency theory ignores the significance of the traditional collective thinking in Norwegian agricultural cooperatives. In this respect, agency theory seems to be incomplete and its explanatory power is low. The second point to be advanced is that the value of applying agency theory as a conceptual tool is likely to rise in the close future, due to the emerging of novel industrial strategies and new cooperative forms.

The article proceeds as follows: First, agency theory is presented in a nutshell version. Thereafter, the usefulness and weaknesses of the agency theory as a framework for discussing the Norwegian agricultural cooperatives is assessed. A short multilevel analysis is conducted, directed towards environmental changes, as well as changes in organization structure and membership values of Norwegian cooperatives.



## 2 Agency theory—and its critique of the cooperative form

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Agency theory addresses problems within organizations where ownership and leadership are separate. The theory is concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions (Fama and Jensen, 1986). Hence, agency theory analyses organisations in terms of conflicts of interest between principals and agents. A principal-agent relationship arises when a principal contracts with an agent to perform some tasks on behalf of the principal. The principal delegates authority to the agent, and the welfare of the principal is affected by the choices of the agent.

The situation to which agency theory devotes most interest is characterized by differential information and differential risk aversion. The agent is assigned to make, modify or cancel contracts with a party in the principal's name. Consequently, the agent is in position to make independent decisions regarding issues that affect the wealth of the principal. The relationship between both parties can be defined by contract, but it may be difficult for the principal to prevent the agent from acting in the agents' own interest, and not in the interests of the principal. The agent benefits from certain degrees of freedom when accomplishing his tasks for the principals.

Agency relations can be found both between firms (for instance franchising and licensing) and within firms (for instance manager vs. subordinate, employer vs. employee, members vs. management of a cooperative). Agency theory is concerned with those situations in which the agency relation is problematic. The theory emphasizes that the relation between the principal and the agent is complex since no contract is perfect, and because contracts are costly to draft, maintain and follow up. Barney and Hesterly (1996) summarise that the delegation of decision-making authority from principal to agent is problematic under three conditions: when the interests of principal and agent diverge, when the principal cannot perfectly and costlessly monitor the actions of the agent, and when the principal cannot perfectly and costlessly monitor and acquire the information which is available to or possessed by the agent.

Control costs occur because the principal must use resources to direct and control the agent. This is done by establishing a contract and by controlling and ensuring the fulfil-

ment of the contract. Since the agent has the freedom to make independent decisions, there is some risk that he will not manage the organisation in a fashion that best benefits the principal. The principal has rights to the surplus created by the organisations activities (residual rights), but the agent is able to direct the organisation so that the surplus of the organisation is influenced. Two generic problems may occur: moral hazard (hidden actions), and adverse selection (hidden information) (Arrow, 1985). Moral hazard involves situations in which the actions of the agents are either hidden from the principal or costly to observe. It is either impossible or costly for the principal to fully monitor the actions of the agents. Stockholders or directors might find it prohibitively costly to fully monitor the behaviour of their top management team. The employment relation in general is one in which effort and ability are difficult to observe. Agency problems may also involve adverse selection. The agent possesses information that is unobservable or costly to obtain for the principal. Consequently, principals cannot fully ascertain whether or not their interests are best served by the decisions of the agents. Guidelines may be spelled out and the agent may to some extent be monitored, but the agency relationship is nevertheless characterised by the freedom to independently determine activities and contracts.

Clearly, contracts are central in agency theory. The essential function of the firm is to mediate individual contractors. Organisations are regarded as legal fictions that serve as a nexus for a set of contracting relationships between individuals. However, not all types of contracts are equally important. Following Fama and Jensen (1986), two types of contracts are of particular interest in organizations; namely the contract that regulates the residual right and the contract by which the decision processes are designed. The right to the residual claim is defined as the right to the net cash flow from the firm after all other claims have been met. The person with the residual right should also bear the risk to remain without compensation if the net cash flow does not allow for any compensation. This residual risk is defined as the difference between stochastic inflows of resources and promised payments to agents. The residual risk is borne by those who contract for the rights to the net cash flow.

Fama and Jensen also hold that the way the organizations allocate the steps of the decision process between agents is important in explaining the survival of the organizations. According to agency theory, the overall solution to the agency problems is to set up a system of efficient financial rewards. These monetary incentives must specify how the principal can align his own interests with the interests of the agent, as well as how the principal can direct and control the agent.

## 2.1 Critique of the cooperative form

Agency theory adds something valuable to our knowledge of the cooperative form. Traditionally, students of cooperatives have conceptualised this organization form in one of three alternative ways (Sosnick, 1960):

- As vertical integration of otherwise independent actors
- As one independent company, with strong resemblance to investor-owned companies
- As a coalition of actors, which substitute collaboration for independent competition.

Of these, the coalition-perspective pays most attention to the relation and interplay between the members and their common unit, in terms of the distribution of incomes, costs rights and burdens among members. The two other definitions set focus on the mechanisms by which the cooperatives' total incomes are generated (Kaarlehto, 1956. Staatz, 1987). The merit of the coalition perspective is to address distribution issues also. Here, cooperatives are conceived of as coalitions of different parties with

interests that sometimes conflict and sometimes coincide. Focus is also set on the members' incentives and motivation to remain members.

Agency theory is capable to significantly extend the coalition perspective. The theory contributes to a more advanced discussion of the relation between the members (the many small principals) and their cooperative (the agent). However, agency theory tends to be critical with respect to the efficiency of the cooperative form, and this critique is multifaceted. Many fundamental problems are assumed to be inherent in the cooperative form; such as the problem of common ownership, the horizon problem, the portfolio problem, the follow-up problem and the decision maker problem (Nilsson, 2000. Hakeilius, 1996. van Bekkum, 1997).

We shall now briefly present selected parts of the critique, as a prelude to the following question: *Under what conditions* are the agency problems likely to represent a significant problem for producer cooperatives and their members? Through this discussion, a set of conditions is proposed, which trigger a discussion of the relevance and significance of agency problems in Norwegian agricultural cooperatives.

From the agency perspective, the fact that the equity capital is **collectively owned** (unallocated), inhibits both the efficiency of the cooperative and the fairness in the treatment of members. The individual member has no direct or personal control over his respective part of the unallocated capital. The capital is in everybody's hands, but not in anyone's hands. Therefore, agency theory assumes that the rational member will question why (s)he should engage in issues (s)he can not impact. It would normally be more rational for the individual member to engage in matters and organisations that they can more easily influence. Not surprisingly, cooperative members are expected to become apathetic (Nilsson, 2000).

According to the agency perspective, the **horizon** problem emerges in cooperative organisations for two causes: First, members are expected to be predominantly occupied with shortsighted perspectives on their cooperative membership. They tend to think and behave myopically. Here-and-now actions dominate a strategic, long-term perspective. Second, residual rights are not tradable. The individual members' right to a fair proportion of the cooperative residual is not tradable. Agency theory argues that a system of tradable owner shares will overcome the horizon problem.

The **portfolio problem** is related to the horizon-problem, but set focus on the members' variety of risk/reward-profiles rather than the diversity of time horizons. As long as cooperative members have different time horizons, there will exist different viewpoints with respect to the risk/reward-profile of the cooperative. Following agency theory, all investors should have an investment portfolio that reflects the members' preferred trade-off between risk and reward. Agency theory is critical to the cooperative form since an efficient allocation of this type is unattainable in cooperative organisations. The cooperative organisation lacks a trading system that allows the members to end up with an investment portfolio that corresponds to their preferred risk/reward-profile.

The **follow-up problem** and the **decision-making problem** stem from the fact that in a situation where members are increasingly diverse and specialised, they may gradually lose their interests in overall strategic issues in the cooperative. Diversity and fragmentation may inhibit active participation. If certain groups of members experience that the cooperative works insufficiently hard to promote their specific interests compared to the interests of other member groups, their engagement and commitment to the cooperative is likely to decrease. Moreover, active member participation may be less attainable in large cooperatives than in small ones. The conditions for trust-building are more demanding in large, impersonal organisations than in smaller organisations where face-to-face contacts play a major role (Borgen, 1998). In very large cooperatives, it is more complicated to get access to relevant information, less natural for the rank-and-file

member to engage in strategic issues, and more complicated for members to identify with the cooperative.

## 2.2 Under what conditions does the critique hold true?

When is this critique relevant? As argued by Nilsson (2000), the agency-problems can appear as more or less problematic, depending on several conditions. First, one factor which can impact the extent and strength of the agency problems, is the degree of homogeneity within the body of members. If members are literally equal and have precisely the same business interests, the agency problems listed above (unallocated equity, horizon, portfolio etc.) are not very likely to unfold. When members have equal interests, they will probably accept that the unallocated cooperative resources are used jointly and severally. Agency problems will be more accentuated if the body of members is highly fragmented; members pursue multiple business strategies, and experience conflicts of interests. Hence, the more homogenous the members, the more negligible the agency problems are.

Second, the smaller the joined assets, the more negligible are the agency problems (Nilsson, op.cit). Relatively small amounts of money should imply less controversy than larger amounts. In other words, whether or not unallocated equity represents a strategic and political issue in the cooperative may relate to the absolute size of the financial contributions of the members. The less the financial contribution from members, the more negligible are the agency problems in cooperative organizations.

Third, agency problems do not unfold when newcomers contribute to increased production volume, with the consequence that the cooperative thereby comes in position to reap economies of scale which would otherwise be out of reach for the collective (Nilsson, op.cit). New members act as free riders, in the sense that they undeniably benefit from the existing assets of the firm. Nevertheless, for the established members it can be economically rational to allow new members to join without paying a fee. A related point is that, given that operations reduce members' transaction costs and that members have low internal transaction costs, the agency problems are less likely to severely challenge the coherence of the cooperative. If the membership is homogenous and if the cooperative firm focuses on operations that significantly reduce members' transaction costs, the investments of the cooperative are made to profit all members. Their joint benefit is that transaction costs are reduced through the membership. Ideally, all members benefit from all operations in the firm, and therefore also from all investments. Given these conditions, the critique from agency theory (the collective capital is inflexible and that owner-shares are not transferable) is less relevant. Hence, the third condition is that if the co-operative firm operates solely with those activities that lead to reduced transaction costs for members, agency problems are more likely to be negligible. The closer the cooperative activities are to the operations of the members, the more negligible are the agency problems.

Fourth, the more the members are committed to the values and strategies of their cooperative, the less likely it is that the agency problems will unfold. As already indicated, this type of commitment will probably increase the more homogenous the members are. Consequently, the fourth condition is that the more involved, engaged and committed the members are, the more negligible are the agency problems.

To sum up, agency problems are likely to be negligible under the following conditions:

- The members are relatively homogenous.
- The financial contributions from members to their cooperative are relatively small.

- The activities of the cooperative are close to the operations of the members, so that the activities contribute substantially to solve the transaction cost problem of the members.
- The members are involved, engaged and committed to the collective thinking and strategies of their cooperative.





### 3 The usefulness and weaknesses of applying agency theory to the Norwegian agricultural cooperatives

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Now, the task at hand is to explore the relevance of agency theory in Norwegian agricultural cooperatives, based on the conditions listed above. The discussion is at three levels of analysis; institutional environment (particularly emphasising the cultural heritage and political-institutional arrangements), the organisation structure, and members' values and strategies. My approach is to distinguish between two historical epochs; the period from approx. 1950 through 1990, and the period after 1990.

#### 3.1 Changes in the institutional environment

A natural point of departure is the cultural heritage and the corporatist nature of Norwegian agricultural cooperatives. These cooperatives have for a long time been permeated and characterised by collective and anti-authoritative thinking. Hallenstvedt (1996) presents the rich diversity of cooperative and popular organisations that grew up in Norway from the early 18<sup>th</sup> century. The voluntary organisations were in different sectors (farming, labour relations, Christian life, teetotalism), but shared an anti-authoritative and collective thinking. They all engaged in tasks to which the state did not pay sufficient attention (Steen, 1948). Hans Nilsen Hauge (born in 1771, died in 1824) was particularly influential as a catalyst for the early cooperative movement in Norway. He challenged the ruling authorities and the strictly regulated feudal economy at that time, and particularly the royal privileges that inhibited the populace from benefiting from active involvement. His approach was not only to address the critique rhetorically, but also to engage in practical work to realise the visionary thinking. He actively engaged to initiate and develop small-scale cooperative units, decades before the Rochdale pioneers. Nilsen Hauge's masterpiece was to link anti-authoritative religious life and democratic business organisations for small-scale farmers. Obviously, Nilsen Hauge represented a significant threat to the ruling authorities. He was imprisoned for several years, but his

ideas survived. The locally founded farmer cooperatives were gradually integrated into a regional and national network of cooperatives. There are several reasons why these collective ideas diffused rapidly; the even production structure, the small-scale and geographically dispersed farms, and the small social differences between farmers. Such conditions laid the ground for the evolvement and popularity of egalitarian ideas. The more specific glue of the early cooperative movement was the obvious advantages of joint action for small scale-members in order to cope with poor treatment from political authorities, purchasers and middlemen. Within the group of founding members, neither the portfolio-problem, the horizon-problem, the decision-problem or other agency problems challenged the coherence of the cooperative. The members were homogenous, their financial contributions were modest, the activities of the cooperative were close to the operations of the members, and the members were involved, engaged and committed to the collective thinking and strategies of the cooperative. This cultural heritage contrasts to the premises for the critique that is addressed towards the cooperative form from the agency theory.

These remarks refer to the specific conditions in the very start of the cooperative movement in Norway. Some decades later—around the 1930's—the political-institutional framework of Norwegian agriculture contributed significantly to maintain the egalitarian character of the Norwegian agricultural cooperatives. The corporatist governance model was developed and was at its peak around the mid-1980's. One feature of this governance model is that all eligible farmers were offered the right to deliver their products to the producer cooperatives. Since the 1930's, the Norwegian agricultural cooperatives have evolved within the political framework of a nationally controlled production of primary foodstuffs. The Norwegian cooperatives have followed a co-evolutionary pattern (Baum and Singh, 1994). The institutional environment of the cooperatives, which predominantly exist of other political and economic organisations, has been heavily influenced by the cooperatives themselves. It has been taken for granted that the relevant market was defined as the domestic market, with only minor space for imports and exports. For decades, the Norwegian agricultural cooperatives operated within the boundaries of a strictly regulated market and an advanced regulatory regime. The political and economic protection was the result of an intimate interplay between the political authorities and the cooperative organizations (Røkholt and Borgen, 1998).

To sum up, the agricultural cooperative movement in Norway benefits from a collectively oriented cultural heritage. The cooperative form has fitted well into the overall socio-economic structure of Norwegian agriculture. Under these conditions, little room has been left for the agency problems to develop and imprint the operations of Norwegian agricultural cooperatives. Since the early 1990's, however, a novel regulatory regime has been in the making, more in tune with the general libertarian ideas upon which the European Economic Community is based. More attention has been paid to competitiveness and individual freedom at the expense of egalitarianism and solidarity. The advantages of free international trade are more highlighted than before. Traditional regulatory instruments are replaced by measures that more explicitly motivate innovation and entrepreneurship. The expected outcome is an increasing amount of mergers and joint operations, but also an increasing exit rate of farmers. The new institutional environment challenges the cooperative owners to form new competitive strategies and organisational forms.

## 3.2 Changes in the cooperative organisation structure

The abovementioned changes in the institutional environment can be traced more distinctively at the organizational level. For decades, the corporatist governance structure of Norwegian agricultural has substantially influenced the activities and structure of the cooperatives. A close interplay has developed between the significant actors in the domestic environment (political authorities, the farmers unions) and the cooperatives (Røkholt and Borgen, 1998). The agricultural cooperatives were given the mandate to implement the national agricultural policy. However, the organization structure of Norwegian cooperatives is now in a process of rapid transition. The agency problems were largely negligible until the 1990's, but may become more influential under the current conditions. The new organizational characteristics may be clarified by means of the two images of cooperative organizations suggested by van Bekkum et.al. (1997), namely countervailing power cooperative and entrepreneurial cooperative. Since the first cooperatives were launched in Norwegian agriculture and up to approx. 1990, they have essentially functioned as a countervailing power-type of cooperative. There are two major conditions under which this type of cooperative is viable. The first condition is that there exist economies of scale so that the average cost curve is continuously declining as the volume increases. The second condition is that the sales price of the cooperative is independent of the production volume, for instance because the government guarantees the prices. Consequently, it is in the interest of all members that production volume is kept as large as possible. Hence, countervailing power cooperatives have a volume maximisation goal and tend to be highly production oriented. Further, this type of cooperative works very close to the members' own businesses and can be relatively easily controlled by their members. Since all investments of the cooperative are in activities close to the members, the portfolio problem—i.e. the problem that members have differing preferences concerning investments—tends to be minimal. Furthermore, the horizon problem becomes negligible since the investments from members are small. Normally, the desired payback periods for investments do not differ significantly between various segments of the members. Furthermore, there are minimal problems connected to an open membership policy, as non-member farmers would produce their volumes anyhow and therefore common property problems are relatively small. Under these conditions, the agency problems have been mostly negligible in Norwegian agricultural cooperatives. However, their golden age seems now to have reached an end, and the countervailing power cooperative is expected to be gradually supplemented by more entrepreneurially oriented cooperatives. This type of cooperative is characterised by forward integration, the assumption of market risks and increased value-added component in the products. By processing the products several steps further, they can differentiate their production from their competitors and gain consumer loyalty with the aim of raising the price and profitability levels. Following van Bekkum et.al. (op.cit, p. 191), the following bundle of problems are likely to emerge in entrepreneurially oriented cooperatives:

- The members cannot afford to raise the needed capital, so under-investments and non-optimal investments results.
- Large investments which, if they are financed by collective capital, distort internal prices significantly.
- Members would try to reap benefits without paying, i.e. they become free riders, and thus the incentive structure is distorted.
- Many investments are not in the interests of all members.
- Members have difficulties to monitor, control and assess the cooperative.
- There will be difficulties to attain the necessary streamlining of processing chains if the cooperative cannot control the quantity and quality of the members' production.

- Cross-subsidisation between different groups of members will hamper the efficiency both at the member level and in the co-operative.

To what extent does Norwegian cooperatives develop from “countervailing power”-models towards entrepreneur-oriented models, with the consequence that agency problems increase? The picture is complex, but some general trends can nevertheless be identified (Røkholt and Borgen, 1998). Within fruit and vegetables, a sector in which the cooperative organisations traditionally have had a limited market share (approx. 25%), the former Gartnerhallen was closed down in 1997, due to low productivity, low member engagement and unsatisfactory economic results. Gartnerhallen was exposed to the weaknesses of the traditional cooperative form, without being able to utilise its potential benefits (Røkholt, 1999). A new generation cooperative has now been established, very much in line with the entrepreneurial cooperative. The new organisation (“Nye Gartnerhallen”) is directly integrated with a retailer chain through a long-term exclusive contract. The membership contract in the new cooperative is very demanding with respect to delivery precision, quality level etc. The two most influential producer cooperatives in Norway—the Meat producers’ cooperatives and the Dairy cooperatives—are also in a period of rapid transition. A new governance structure has recently been agreed to in the Meat Processing cooperative. The most significant change is that the authority to make investment decisions is delegated to the apex of the cooperative. The rationale is to enable the cooperative to enhance its capability to move financial resources according to new industrial strategies, faster and more powerful than before. More advanced strategies for market development and specialisation of production are prepared also. Substantial financial amounts are used to further develop the brand image of the cooperative, in a severe competition with the private label strategy that is pursued by the retailer chains. Both the Meat producers’ cooperative and the Dairy producers cooperative are preparing for a situation in which specialisation and the capability to pursue an aggressive investment strategy is a crucial competitive weapon. To accomplish this goal, less effort is undertaken to level out inequalities among members. The door is opened for more differentiated treatment of members, depending on their relative importance for the strength and survival of the cooperative. There are also some embryos of genuine novel cooperative organisations in Norway, organised around regions, niches or production technology (e.g. ecological production types). It is too early to declare them as “entrepreneurial cooperatives”, but they are definitively more likely to develop in that direction than to become similar to the countervailing power type of cooperative.

### 3.3 Changing member values

The abovementioned pattern can also be traced in the form of changes in membership strategies, values and mentality. The more alike the members, the less likely that agency problems unfold in cooperatives. What today characterises the body of members of many cooperatives, however, is increasing diversity and intergenerational value differences. The new generation of farmers differ from their parental generation in many respects. They are likely to be more influenced by modern trends within technology, consumer patterns etc. In future, members will probably identify more with their specific type of production and close colleagues in the same niche than with the cooperative organization as such. Moreover, the investor-role may gradually be more focused, as a supplement to the role as user. The expansive farmers may insist on a more aggressive investment strategy than the other members. This too may contribute to make the membership body more heterogeneous and fragmented. The essential point to infer from this

is that agency problems are likely to increase in the Norwegian agricultural cooperatives in the close future. The discussion is summarised in Figure 3.1 below.

	<i>1950–1990</i>	<i>After 1990</i>
<i>Characteristics of the interplay between the agricultural cooperatives and their environment</i>	<ul style="list-style-type: none"> <li>- The cooperative movement evolved as a solidary project run by farmers and the state</li> <li>- Environment under control, due to advanced national economic planning and the corporatist governmental regime</li> <li>- Cooperatives gained legitimacy by virtue of their role as implementers of national agricultural</li> </ul>	<ul style="list-style-type: none"> <li>- New political governance structure</li> <li>- Norwegian agriculture adapts to international trade agreements</li> </ul>
<i>Characteristics of the cooperative organization structure and operations</i>	<ul style="list-style-type: none"> <li>- Agricultural cooperatives originated as “countervailing power”-movement</li> </ul>	<ul style="list-style-type: none"> <li>- Entrepreneurial activities within the framework of existing federate coops</li> <li>- New cooperatives emerge, with strong resemblance to the entrepreneurial logic</li> </ul>
<i>Characteristics of membership strategies and values</i>	<ul style="list-style-type: none"> <li>- Active users, but passive investors</li> <li>- Membership motivated by the need for selling farmers’ goods, not to invest capital</li> </ul>	<ul style="list-style-type: none"> <li>- New generation farmers</li> <li>- More active members: both active users and active investors</li> </ul>
<i>Significance of agency-problems</i>	Mostly negligible	Likely to increase substantially

*Figure 3.1 Changes in environment, organisation structure and membership values*



## 4 Conclusions

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We have critically discussed the extent and significance of agency-problems in the Norwegian agricultural producer cooperatives. To what extent does agency theory illuminate critical and strategic issues of Norwegian agricultural cooperatives? Our major conclusion is that traditionally, the agency problems have been negligible in Norwegian agricultural cooperatives, but the problems may become more challenging and pressing in the close future. Our attempt here to apply the agency theory to explore Norwegian cooperatives, is built on the premise that under certain conditions, the agency problems may become highly problematic in cooperative organizations and deeply affect their operations and structure. Our overall conclusion is that agency theory has relatively low explanatory power as applied to the evolvement of the Norwegian agricultural cooperatives up to approx. 1990, but may turn out to be a much more relevant and inspiring framework for the future analysis of these cooperatives.

Implicitly, we have paid attention to several weaknesses of agency theory as a framework for understanding cooperative organisations. An institutional theory should offer an appreciation of the way in which specific historical structures shape economic behaviour (Robins, 1987). Agency theory seems not to be equipped to stand up to this expectation, for multiple causes. First, agency theory underestimates the significance of collective thinking and collective strategies in producer cooperatives. The historical roots and cultural heritage of Norwegian producer cooperatives make their collective thinking very strong. Second, the human model inherent in agency theory is an image of hyper-calculative individuals, who are abstracted and isolated from their contexts. In other words, agency theory assumes that principals and agents live in abstract environment, but neglect the processes by which specific environmental patterns also live in the minds of the actors. The relational aspects between members are treated in a cursory manner. No interest is devoted to solidaric behaviour, not to speak of altruistic thinking and strategies. The significance of institutional and cultural settings is treated incompletely. Another issue is that the scope of agency theory is limited, so that the theory is unable to give a full treatment of the crucial question why cooperatives exist. To answer this question, it is far more relevant to draw on macro-oriented institutional theory as well as transaction cost economics, than on agency theory. Probably, cooperatives are so viable because the agricultural cooperatives in Norway have successfully solved the

transaction cost problem of their members. The cooperative membership has safeguarded the asset specific investments of the members. For decades, this protection has been offered by agricultural cooperatives in an intimate interplay with the political authorities, due to the cooperatives' role as implementer of national, agricultural policy (Røkholt and Borgen, 1998). Therefore, even though the agency problems may become substantial, they may still be negligible to the extent that they are outweighed by the cooperatives' ability to reduce the transaction costs of the members. Under these conditions, members actively control the firm since it is meaningful for them.

To sum up, an understanding of the agency problems is by far a complete frame of reference for a scholarly discussion of agricultural producer cooperatives. Despite the popularity of the new organizational economics, students of cooperatives are still deemed to live with theoretical eclecticism.



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