

THE SILVER LINING OF COOPERATION: Self-defined rules, common resources, motivations, and incentives in cooperative firms

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Aim of the paper

- Develop a behavioural framework for the analysis of cooperative behaviour:
- This framework should account for behavioural dimensions such as:
 - Motivations;
 - Fairness;
 - Satisfaction
- Tackle the dark side of cooperation, that is well known behavioural problems such as:
 - Free riding;
 - Opportunism;
 - Distorted distribution and appropriation patterns.

Introduction

- Cooperatives are characterised by mutual-benefit coordination mechanisms aimed at the fulfilment of members' participation rights.
- This paper explores the institutional elements that regulate individual behaviour and outcomes in cooperatives by bringing together:
 - new-institutionalism;
 - behavioural economics;
 - evolutionary economics.

Main discussion issues

Our framework considers four main dimensions of the governance of cooperative firms:

- (1) the development and application of self-defined rules by the members of the cooperative;
- (2) the management, and appropriation of common resources and outcomes;
- (3) intrinsic motivations and reciprocating behaviours;
- (4) the implementation of suitable incentive mixes based on inclusion and reciprocity, including both pecuniary and non-pecuniary elements.

An example is offered in order to highlight possible problems in the governance of cooperative firms, in particular the processes of distribution and appropriation of surplus.

The problem of common goods

- Common goods are:
 - Rivalrous;
 - Non excludable.
- Private enterprises are usually considered private goods, because the value added they produce is rivalrous and excludable. The profit is adjudicated to the shareholder-owners, and all the other stakeholders are excluded from it, with the exception of the fulfilment of contract obligations (e.g. payment of wages and interest on debt).

Common goods in cooperatives

- Cooperatives, as a norm, produce and distribute rivalrous goods and services as private firms;
- However, more than other organizational form, they are characterized by a high degree non excludability, typically:
 - in the utilization of their assets, which need to be available to the whole membership;
 - In the distribution of resources, which is influenced by democratically taken decision.

- This interpretation can be taken as far as interpreting the cooperative itself as a common good, since it uses and produces rivalrous goods and services, but, at the same time, has to cope with non excludability connected with membership rights.

The dark side of cooperation

- Hence, typical problems that exist in the management of common goods can be as well found in the case of cooperatives:
 - Free riding:
 - Tragedy of the commons;
 - Under-provision of public goods.
 - Other forms of opportunism:
 - Distorted distribution and appropriation patterns.
- People working with and in cooperatives need to be aware of these problems in order to tackle them.

Dark side of cooperation

- Dark side of cooperation:
 - appropriation and distribution.
- Appropriation:
 - Cooperatives, more than other organizational

Figure 1 - Cooperative organisations explained: the reversed pyramid of interconnections between control rights, working rules and outcomes.

