

**Organizational Choice and Behaviour:  
A Framework for Analyzing Decision-making in Co-operative Organizations**

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of the requirements for the degree of Master of Arts in Interdisciplinary Studies, Co-op  
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By

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## Abstract

This thesis proposes a conceptual framework to analyze the choice of organizational form and assess the shifts in organizational behaviour and form. This thesis argues that the choice of organizational form is an outcome of an individual's or group's *mode of identification* within the dominant organizational form and property rights structure of society. The framework places/situates the investor-owned firm (IOF) in a position of *identification* with the dominant ideology and property rights structure of society. The state-owned enterprise (SOE) occupies a position of *counter-identification* with the dominant ideology and property rights structure of society. The co-operative, on the other hand, represents a *dis-identification* with both the IOF and the SOE as this form works on and against the ideologies and property rights structures associated with the two former organizational forms.

Further, the thesis argues that endogenous and exogenous pressures may cause some organizations to shift their organizational behaviour and form. The researcher examines how internal problems in co-operative organizations (i.e., horizon and principal-agent problems) can exacerbate exogenous pressures (i.e., increasing competition and/or government deregulation) from the market and/or state causing the co-op to imitate the strategies or property rights structure of the IOF in order to cope with these issues.

Profiles of the formation of the Saskatchewan Co-operative Wholesale Society and the Consumers' Co-operative Refineries Limited and the conversion of the Saskatchewan Wheat Pool are used to illustrate the conceptual framework and support the arguments made in this thesis.

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## **Dedication**

To Vanessa, Jessica, Dana, Michael and Alana.

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## **List of Abbreviations**

<b>AU</b>	Agricore United
<b>CCRL</b>	Consumers' Co-operative Refineries Limited
<b>CSA</b>	Community supported agriculture
<b>CWB</b>	Canadian Wheat Board
<b>EEC</b>	European Economic Community
<b>FCL</b>	Federated Co-operatives Limited
<b>FTA</b>	Canada-United States Free Trade Agreement
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>IOF</b>	Investor-owned firm
<b>JRI</b>	James Richardson International
<b>MST</b>	Movimento dos Trabalhadores Rurais Sem Terra
<b>NAFTA</b>	North American Free Trade Agreement
<b>NBO</b>	Non-business organization
<b>NCO</b>	Non-co-operative organization
<b>NGO</b>	Non-governmental organization
<b>NGC</b>	New generation co-operative
<b>PDS</b>	Producer Direct Sale
<b>SCWS</b>	Saskatchewan Co-operative Wholesale Society
<b>SGGA</b>	Saskatchewan Grain Growers Association
<b>SOE</b>	State-owned enterprise
<b>SWP or Pool</b>	Saskatchewan Wheat Pool
<b>SWSL</b>	Saskatchewan Wholesale Society Limited
<b>TSE</b>	Toronto Stock Exchange
<b>TVG</b>	Tri Valley Growers
<b>UFC</b>	United Farmers of Canada
<b>UGG</b>	United Grain Growers
<b>USDA</b>	United States Department of Agriculture
<b>WAC</b>	Western Agricultural Conference
<b>WGTA</b>	Western Grain Transportation Act
<b>WIT</b>	Weyburn Inland Terminal

## **Chapter 1: Introduction**

### **1.1. Problem**

Individuals form organizations to coordinate their activities so that they can do things that they could not do on their own. To form an organization individuals must identify with a common goal and/or shared set of objectives that they want to achieve, regardless of whether the goal and/or set of objectives is an imagining of a single entrepreneur or a group of individuals. Generally, this identification with a common goal and/or set of objectives informs the choice of organizational form – investor-owned firm (IOF), state-owned enterprise (SOE), co-operative, or non-governmental organization (NGO).

To coordinate the activities of their members, organizations gather information from the world around them, set objectives, communicate with their members, and establish management control structures and roles for members. By doing these things, organizations can build loyalty and trust among members that further secures their ability to coordinate the activities of their members.

However, the ability of organizations to meet their goals and objectives is complicated by endogenous and exogenous pressures. Some of the endogenous and exogenous pressures that organizations encounter include: changes to the regulatory environment, increasing competition, market concentration, technological innovation and change, securing member loyalty, acquiring new members, obtaining new sources of capital, and finding capable leaders. In order to respond to these pressures organizations choose to either change their strategies, behaviours, structure, or to exit the marketplace.

The purpose of this thesis is to develop a framework for analyzing organizational decision-making. In developing this framework, this thesis examines two issues important to organizational decision-makers: the choice of organizational form, and the decision to shift an organization's behaviour and form. While the framework can be applied to study decision-making in various organizational forms, this thesis examines these issues vis-à-vis the co-operative organization.

### ***1.1.1. Choosing the co-operative organization***

Issues of control and ownership are critical to understanding what a co-operative is and what distinguishes it from other organizational forms. Co-operatives can be distinguished from other organizational forms in terms of their unique property rights structure: co-ops are a common property of their member-owners. They are member-owned, democratically-controlled organizations that practice decision-making according to a policy of one member-one vote. Furthermore, in co-operatives, the members are the users of the good or service and benefit from the co-op, according to their use of the organization. Importantly, many social movements have used co-operatives because the common property rights structure of the organization empowers individuals that are otherwise marginalized by state or market failures.

This association between co-operatives and social movements informs discussions concerning the nature of the co-operative organization, as the tendency for social movements to adopt the co-operative form is generally a result of a strong identification with the logic and values of co-operative organizations or a common bond (i.e., class-consciousness) that unites social movement members. These processes of identification and identity-building are apparent in the histories of various social movements that have adopted the co-operative form, including agrarian producer movements, the organic movement, workers movements, the fair trade movement, and women's movements to name but a few. This connection between social movements and co-operatives has led some commentators to argue that co-operatives are a transitional organizational form that is used to cope with state or market failures (See Develtere 1992). However, this argument is not sufficient as many co-operatives are also formed in sectors or places that are not experiencing state or market failures.

### ***1.1.2. Imitating investor-owned firms***

As social movements grow and over time are legitimated by mainstream society, other organizational forms like investor-owned firms (IOFs) may displace or replace the role of co-operatives in meeting the goals and objectives of the social movement. For example, in the organic movement large IOF organic retailers like Whole Foods and Wild Oats Markets and mainstream retailers like Safeway, Sobeys, and Wal-Mart have replaced co-operatives as the primary retailers of organic foods to consumers in North America. In

this way, IOFs are late arrivals to social movements and as such often adopt or imitate some of the strategies and behaviours of co-operatives to legitimate their presence in these new market sectors.

Mirroring this is a tendency among co-operatives to mimic the behaviour of investor-owned firms (IOFs) in an attempt to deal with the challenges and uncertainties posed by a changing environment (Bager 1996; Murray 1983; and, Craig 1980). Some of the challenges that face co-operative organizations are included under the rubric of globalization – market deregulation, increased competition, technological change, engaging members, supply chain integration, and market consolidation. As a result, co-operatives are busy expanding their operations through investment and merger, and where possible consolidating their operations to maximize their competitiveness and realize improved economies of scale. To this end, co-operatives in some sectors are reconsidering the traditional co-operative model and converting to IOFs.

The impetus for developing this framework for analyzing decision-making in co-operative organizations stems from a desire to understand why many co-operatives identify with IOF behaviour and form (i.e., imitating IOF strategies and behaviour or converting to an IOF), while others continue to identify with co-operative values in the face of increasing pressure from the external environment – the market and the state. To examine these issues in detail requires a thorough organizational analysis that includes and intersects with the contributions of organizational behaviourists, property right theorists, management theorists, political economists, co-operative theorists, and historians. The framework proposed in this thesis provides a comprehensive tool that may be used to analyze and interpret organizational decision-making.

## **1.2. Purpose and objectives**

This thesis proposes a conceptual framework for analyzing the choice of organizational form and shifts in organizational behaviour and form that occur over time. Since each organizational form comprises a goal/benefit side and a control/ownership side (Bager, 1996), the conceptual framework proposed here connects the cognitive aspects of organizational choice and behaviour to the property rights structure that defines the form of the organization. Applying the work of Pêcheux (1982) and Mintzberg (1996), the framework positions the investor-owned firm in a position of identification with the

dominant ideology and property rights structure of society. The state-owned enterprise occupies a position of counter-identification with dominant ideology and property rights structure of society. The co-operative occupies a position of dis-identification, as it works on and against the dominant organizational forms of society – the IOF and the SOE.

The thesis argues that the choice of the co-operative organization occurs as individuals dis-identify with (*work on and against*) the dominant ideology and property rights structure of society. The co-operative organization challenges the dominant conception of property as a *private* institution and a *right to exclude*, which is exemplified by the investor-owned firm (IOF) and validated by the state sector, and the corporate property rights structure of the state-owned enterprise (SOE). The co-operative exemplifies a conception of property as a *common* institution and a *right not to be excluded* from the use or benefit of a resource.

The framework is also used to analyze and describe the decision-making behaviour of co-operative organizations. Specifically, it is used to analyze the tendency for some co-operatives to behave more like IOFs. This thesis argues that pressures endogenous and exogenous to the co-operative, as they create or exacerbate principal-agent problems, free-rider problems, and influence cost problems, can cause co-op managers, directors, and/or members to shift identification from the co-operative form and logic towards an identification with the IOF form and logic. These shifts in identification can result in the co-operative imitating the strategies and behaviours of IOF counterparts, or it can lead to the co-op converting to an IOF.

### **1.3. Limitations**

This thesis proposes a framework for analyzing decision-making behaviour in organizations. While the framework can be used to analyze both strategic and procedural decisions, this thesis focuses specifically on two strategic decisions: the choice of organizational form; and the decision to shift an organization's behaviour (goal/purpose) and/or form (ownership/control). The application of the framework is limited to these decisions as they have significant and identifiable effects on the property rights structure and cognitive model of the organization. The framework is not applied to an analysis of decisions where the organization continues to operate in a way that is congruent with its behaviour and form. Furthermore, while the proposed framework can be used to analyze

these decisions in all types of organizational forms, this thesis examines these decisions vis-à-vis the co-operative organization.

The decision to use the co-operative organization to discuss and illustrate the proposed framework for analyzing organizational behaviour and decision-making reflects a desire to apply a critical approach to this area of study. This approach critiques the roles of dominant organizational forms in society and the influences of ownership and control structures endogenous to the organization in terms of the members' identification with the goals and benefits of the organization. This critical approach develops a conception of the co-operative as an organization that intersects and resists the ownership and control structures and the goals and benefits of the competing organizational forms. In this way, the co-operative illustrates a *dis-identification* with the dominant organizational forms and logics of society, rather than an identification (a positive mode of consent) or counter-identification (a negative mode of consent) with these competing organizational forms and logics. Moreover, by using the co-operative to illustrate the proposed framework highlights the influences of the dominant organizational forms (the IOF and the SOE), and indicates the means by which the dominant and counter-dominant organizational forms legitimate and maintain their respective positions of authority in society.

With respect to the choice of organizational form, the thesis analyzes the choice of co-operative organization in general. It does not differentiate among and/or between the various types of co-operative organizations that a group might select, nor does the discussion apply only to co-operatives operating in one sector of the economy or with a distinct social role.

In terms of the decision to shift an organization's behaviour and/or form, this thesis examines the influences of other organizational forms (i.e., IOFs and SOEs) on the decision-making of co-operative organizations. Since the focus of the thesis is the response of co-operative organizations to endogenous and exogenous pressures that may cause the organization to shift to its behaviour and form, the thesis does not examine the influences of co-operatives on the decision-making behaviour of IOFs and SOEs (although, as will be pointed out later, this is an avenue for future research).

#### **1.4. Thesis structure**

The first chapter has introduced the problem, establishing the motivation for developing the framework proposed by this thesis, and providing an outline of the framework. The second chapter begins by asking the question: why do individuals form organizations? This deceptively simple question sets in motion a discussion that examines the role of the organization in coping with uncertainty. The discussion indicates that when an organization sets an objective or goal it enables the organization to determine what sorts of information are pertinent to its needs, since the choice of organizational form establishes an organizational objective *a priori*. The chapter also introduces and connects many of the key concepts that are used throughout the thesis, including: organizational logic, cognitive model, identification, heuristics and isomorphic pressures.

The third chapter introduces the work of Pêcheux (1982) and Mintzberg (1996) and applies their ideas to the development of a conceptual framework for analyzing the choice of organizational form and organizational behaviour in established organizations, and especially in co-operatives. A property rights approach is applied to the framework in order to support the argument that co-operatives are the organizational choice of individuals and groups that dis-identify with dominant property rights structure of society. Competing theoretical conceptions of the co-operative organization are juxtaposed and intersected to illustrate a dis-identified imagining of the co-operative organization. Further, the theory applies a social movement perspective to unpack the notion of co-operatives as a transitional or temporary organizational form, and indicate that social movements use co-operatives because they extend property rights to individuals that have been excluded from the use or benefit of a resource or service.

The fourth chapter applies the framework developed in chapter three to analyze the tendency of co-operatives to shift identification with the co-op form in favour of the IOF. This analysis explores how exogenous and endogenous pressures can influence the cognitive model of co-op managers, directors, and/or members, thereby shifting the behaviour and, potentially, the form of the organization. Specifically, it indicates how problems endogenous to the organization – principal-agent problems, free-rider problems, and influence costs problems – can lead co-operatives to imitate the behaviour, strategies and structure of their IOF counterparts.



The fifth chapter examines the formation of two of Saskatchewan's early consumer co-operatives: the Saskatchewan Co-operative Wholesale Society (SCWS) and the Consumers' Co-operative Refineries Limited (CCRL). This chapter illustrates the arguments and framework proposed in chapter three, and shows that co-operatives are the result of a dis-identification with the dominant organizational forms, logic, and property rights conception of society.

The sixth chapter presents the case of the Saskatchewan Wheat Pool's conversion from a traditional co-operative structure to a publicly traded co-operative. It applies the theoretical framework developed in chapters three and four to analyze how endogenous and exogenous pressures can influence and shift the cognitive models of co-op managers and board members away from an identification with the co-operative form and toward an identification with the logic and rationales of the market and the IOF.

The seventh chapter concludes the thesis with a review of the framework. It focuses on the potential application of the framework in the analysis of organizational behaviour in both the micro and macro spheres, with emphasis on its potential linkage to on-going and future research in the area of the social economy and to issues of social cohesion among co-operatives and their members.

## Chapter 2: Organizations

Organizations surround us. Schools, hospitals, and fire departments; sports teams like the Detroit Red Wings and consumer co-operatives like Mountain Equipment Co-op; corporations like Wal-Mart, General Motors, and Cargill; recreational clubs, family-owned businesses, and churches; universities like Oxford, McGill, and Berkeley; non-profit organizations like *Médecins Sans Frontières* and Oxfam; insurance agencies, unions, water and electric utilities, small and medium-sized businesses, banks, credit unions – the list goes on and on. And we are all members of organizations: students, teachers, managers, coaches, doctors, accountants, lawyers, priests, volunteers, day-care workers, agricultural producers, office assistants, and athletes. Organizations do so much in this world that as Nobel economist, Herbert Simon, has argued: “Today, ... we do not live in a market economy, but in an organization economy, or at most, in an organization/market economy, with a predominance of organizational over market activity” (2000, p. 751).

The purpose of this chapter is to answer these questions: What is an organization? What do organizations do? Why do people form them? These are important questions. They are especially useful to the study of co-operative organizations, as theorists question: why do people choose to form co-operative organizations when they could form corporations, non-profit organizations, or request state intervention? With this in mind, this chapter explores the nature of the organization and decision-making in terms of its relation to organizational activity and the selection of an organizational type.

This chapter begins by introducing how individuals’ partial ignorance or incomplete understanding of the world makes it necessary for people to form organizations to coordinate activities and make decisions so that they can do things that they could not do individually. It also illustrates how this process of coordination is initiated and complicated by the identification of organizational objectives.

This chapter then examines the connection between organizational form and the beneficiary of the activity of the organization, arguing that the choice of organizational form is related to the cognitive model (and, more specifically, the organizational logic) with which the beneficiary or decision-making group identifies. Next, the chapter discusses how the selection of an organizational logic is related to the cognitive model that individuals adopt to make sense of the world and, specifically, the heuristics that comprise a person's cognitive model.

Finally, this chapter concludes by arguing that identification with a common organizational logic and set of objectives enables organizations to secure coordination. Further, it argues that how organizations coordinate their activities is affected by *isomorphic pressures* (normalizing pressures) that are exerted upon the organization both endogenously and exogenously. These pressures are important because they influence the objectives and logics that organizations and their members identify with; organizations also use these pressures to ensure that their members identify with logics and objectives that are congruent with that of the organization.

### **2.1. The nature of the organization: coordination and decision-making**

Organizations *coordinate* the activities of their members to achieve a desired end or objective. This idea of coordinated activity is integral to the nature of organizations. Barnard argues that members of an organization co-operate (or coordinate) “as a means of overcoming the limitations of what individuals can do” (1968, p. 23; originally published in 1938). In other words, the organization is a means by which members overcome their mutual constraints.

The most important constraint that individuals must overcome is, what Loasby calls, *partial ignorance*. Partial ignorance is the notion that individuals are incapable of having complete knowledge of future events. As one means to overcome this constraint, individuals form organizations. Therefore, it is possible to argue, as Loasby does, that organizations exist to “reduc[e] ... the costs of coping with ignorance” (1976, p. 79).

Working from the premise that organizations exist to coordinate responses to unknown events to specific organizational objectives suggests that a condition of mutualism must be present for an organization to coordinate behaviour. The members cannot be working against each other, to the degree that they have opposing objectives.

As Simon states, “[g]roup behaviour [sic] requires not only the adoption of correct decisions, but also the adoption by all members of the group of the same decisions” (1997, p. 8). Group behaviour, resulting from the recognition of shared or mutual objectives, is made possible by the ability of individuals to identify and communicate their understandings of the world. Without *communication* and *identification* individuals would be unable to coordinate their activities vis-à-vis an organization.

This process of identifying and communicating understandings of the world is a learning process and is essential to the development of a *cognitive model* or worldview. An individual creates a cognitive model that filters the information they gather from the world and determines how they perceive that information. This learning process is a form of socialization that provides for the conditions required to achieve the group behaviour/performance that Simon argues is needed to cope with partial ignorance. This process establishes the parameters whereby organizations deal with partial ignorance. These parameters are: (1) groups must select more or less correct decisions from all the possible decisions available to them; and, (2) each member of a group must choose the same decision as the others.

## **2.2. Partial ignorance and organizational objectives**

Organizations, if they are to be used by individuals to do things, require objectives. The problem is what and whose objectives are selected. As Knight states: “With uncertainty present doing things, the actual execution of activity, becomes in a real sense a secondary part of life; the primary problem or function is deciding what to do and how to do it” (Knight, 1921, p. 268; in Coase, 1937, p. 399). For Knight, the primary role of organizations is to deal with ignorance; organizations can do this because they facilitate the ability of individuals to make rational decisions about future states.

If individuals had perfect knowledge of their environment and of future states, then they would have little or no reason for coordinating activity via organizations, as decisions about what to produce and how, or what service to provide and for whom, would be coordinated by the price mechanism of the marketplace. However, according to Loasby the world does not work according to this perspective, “[c]hoice within a complex system [i.e., the world] cannot be fully informed; neither can the study of a complex system from the outside” (1976, p. 2). Rather, as Loasby states, decision-makers

face complexity and partial ignorance; that is, decision-makers function according to what Simon refers to as *bounded rationality*, namely, “the limits upon the ability of human beings to adapt optimally, or even satisfactorily to complex environments” (1991, p. 132).

Beyond the cognitive constraints imposed by bounded rationality, deciding what to do and how to do it is complicated by individuals’ personal objectives. The specific objective or set of objectives that an organization adopts (i.e., generating returns for shareholders, ensuring gainful employment for workers, educating young people, or marketing agricultural commodities) enables the organization to determine what sorts of information it must gather from the world. However, establishing an organizational objective requires some negotiation on the part of some or all members of the organization. As Simon states, “the organization objective is, indirectly, a personal objective of all the participants. It is the means whereby their organizational activity is bound together to achieve a satisfaction of their own diverse personal motives” (1997, p. 15). Therefore, when members of an organization overcome their own complex and competing personal objectives and realize an organizational objective, they provide the conditions necessary for an organization to devote resources toward organizational learning and decision-making. Organizations enable learning and decision-making to occur in two complementary and related ways: they create synergies and slack.

First, organizations have a synergistic effect. By providing a diversity of experience and knowledge they are capable of conceiving innovations that might not otherwise be made by individuals working independently of others. Organizations realize the benefits of synergies when they choose members that have different viewpoints and perspectives. According to Fulton and Gibbings, “[b]y creating access to a number of different viewpoints and perspectives, organizations generate ideas for consideration and opportunities for individuals to learn from each other” (2004, p. 171). However, to access these perspectives an organization needs to create an environment that promotes the exchange of information and viewpoints (i.e., implementing hiring programs that seek people with different backgrounds), has mechanisms for acquiring these ideas, and that accepts the outcomes of such collaborations. It is under these conditions that the potential

for synergies grows; it is also during conditions of rapid change and complexity that synergies provide the most important benefits to an organization.

Second, as Cyert and March (1963) have indicated, organizations generate slack as a result of the bargaining and decision-making process that members go through to stabilize the organization. Some of the forms of organizational slack that Cyert and March indicate are:

wages in excess of those required to maintain labor are paid; executives are provided with services and personal luxuries in excess of those required to keep them; [and] subunits are permitted to grow without real concern for the relation between additional payments and additional revenue. (1963, p. 36-7)

Organizational slack is important in terms of an organization's ability to adapt to pressures from its surroundings, as it permits resources to flow toward the coordination of activities that might not otherwise be undertaken had the organization decided to constrain the resources (cognitive, economic, social, physical) of its members. According to Cyert and March, "slack provides a source of funds for innovations that would not be approved in the face of scarcity but that have strong subunit support" (1963, p. 279; in Loasby, 1976, p. 146). Not only does organizational slack provide a source of funds for innovations but also it provides resources in the form of intellectual capacity or decision-making that provide members with the opportunity to identify, think about and search for information to respond to problems relevant to the organization and its objectives.

In addition to providing the conditions necessary for developing synergies, organizational slack also promotes a cohesive organization by satisfying the needs of members. Loasby argues that because slack is the result of a choice, "if slack exists it must be presumed to be someone's preferred state, and its elimination must involve moving someone out of ... [their] ... preferred state" (1976, p. 119). In this way, organizational slack stabilizes the organization by satisfying members' demands and mitigating their desire to search out alternatives, which in turn makes the organization more cohesive. In a sense, organizational slack creates what Barnard (1968) refers to as a "zone of indifference" where a member will find an action acceptable without questioning it. In this way, organizational slack broadens the set of objectives with which members will identify as satisficing.

This section has argued that organizational objectives are a matter of compromise among the personal motives of other organizational decision-makers; however, the question remains as to who these decision-makers are and with whose interests they are concerned. In general terms, this issue is tied to the *organizational form* and the cognitive framework that the organization adopts. Other factors include: the control system of the organization, the organizational logic, member participation, isomorphic influences, and the perspectives or ideologies that dominate and inform the discourses of a society.

### **2.3. Organizational form**

Organizational form is a defining characteristic of an organization as it illustrates who sets the objectives of the organization and what those objectives are. This is because the individual or group that initiates the organization typically determines the organizational form and objectives. Accordingly, Mintzberg (1996) identifies four organizational forms according to ownership structure: privately owned organizations, publicly owned organizations, co-operatively owned organizations, and non-owned organizations.

Privately owned organizations and investor owned firms (IOFs) include business firms, companies, corporations, and family enterprises. Mintzberg indicates that this grouping of organizations includes those that are “closely held by individuals or widely held in the form of market-traded share” (1996, p. 76). The ultimate objective of these organizations is to provide an income or profit to the owners of the business.

Publicly owned organizations are state-owned enterprises (SOEs) and what is referred to in Canada as Crown corporations. Ideally, the objective of SOEs is to provide for the social welfare of the citizenry.

Co-operatively owned organizations are generally referred to as co-operatives, while those operating in the financial sector are known as credit unions. The objective of co-operatives is to provide their members, the user-owners of the organization, with a product or service that they require.

Finally, non-owned organizations include non-governmental organizations (NGOs), non-business and non-co-operative organizations (NBOs and NCOs), respectively. According to Mintzberg, these not-for-profit organizations are “controlled by self-selecting and often very diverse boards of directors” (1996, p. 76). These

organizations are established to benefit a group of individuals whose needs are not being provided for.

This notion that organizational objectives are established for the benefit of the owners or the group that receives the service or good is a naïve representation of how organizations work in the real world. In most organizations, the direct decision-making authority of the organization rests with its managers and not the owners or the members of the organization (Baran and Sweezy 1966; Papandreou 1972). According to Simon (1997), this is because managers have both the power and incentive to select from those outcomes that satisfice the objectives of the organization the outcome that best fulfills their own personal objectives. What is occurring here closely resembles a principal-agent problem (discussed in chapter 4); although the nuance here is that the managers are satisficing the objectives of the organization by choosing the outcome that meets the needs of the organization while benefiting them the most, rather than maximizing the objectives of the organization. Like a principal-agent problem, satisficing behaviour is difficult for members, shareholders, directors, or bureaucrats to detect because generally they do not have the same training, expertise and information regarding the day-to-day business of the organization as do managers, which makes the monitoring of satisficing behaviour difficult.

These problems are connected to issues of socialization. For example, the increasing professionalization of management impedes some groups (i.e., members, shareholders, and directors) from participating in decision-making processes. This increasing professionalization of management provides some insight as to why some board of directors yield decision-making authority to management. From a neo-marxist perspective the management profession has ascended to the top order of Western Society; as Baran and Sweezy argue, “the managerial stratum is the most active and influential part of the propertied class.... Far from being a separate class, they constitute in reality the leading echelon of the property-owning class” (cited in Papandreou 1972, p. 48-9). Mintzberg (1996) argues that this faith in management, with its roots in the private sector, has come to dominate and influence how other sectors of society operate and run. What has happened is that the authority of managers has ostensibly been validated and



legitimated by societal institutions including the media, post-secondary institutions, and the judiciary, as will be illustrated in the section concerning isomorphic pressures.

#### **2.4. Cognitive models**

Decision-making, including the establishment of organizational objectives, requires the decision-maker to have a cognitive model for interpreting the environment and world around them. As Fulton and Gibbings indicates, “[c]ognitive models are the mental structures that people impose on the world to make sense of it” (2004, p. 167). They argue that cognitive models operate by selecting and storing information from the environment according to classification schemes that are organized around a narrative or story that reflects how past events are remembered which in turn guides future expectations and decision-making.

Cognitive models are necessary for making decisions when information is incomplete. The narrative structure of cognitive models acts as a heuristic device for decision-making because it sorts information relative to its similarity with past decision-making experiences and sets of value-based criteria. This information processing is a critical function of cognitive models; as Fulton and Gibbings state, “Information is not knowledge, and to transform it into knowledge requires the interpretive resources of cognitive models” (2004, p. 167). Cognitive models provide a structure to the world: first, by classifying events, objects and people according to value-based criteria; and, second, creating a narrative that makes sense of and validates the classification. What is remarkable is that this process is more or less the same for all cognitive models, even those considered to be irrational; as Loasby (1976) states, “Models are abstractions from reality.... not replicas of it”, that individuals use to “escape from reality into something tractable, but nevertheless useful” (p. 37-8). However, before information can be assembled into specific and individual narratives (or “abstractions from reality”), it must be filtered from all the other information that surrounds us. Cognitive models apply heuristics to filter this information.

##### **2.4.1. Heuristics**

Heuristics are an important part of the cognitive model of an organization. They are critical to the information gathering and filtering that cognitive models perform, and as

such are integral to the identification (selection and adoption) of objectives, procedures and strategies for organizations. They are especially significant as they have a reflexive relationship to the selection of organizational objectives and the maintenance of an organizational logic, which in itself might be considered a meta-heuristic of the organization.

Tversky and Kahneman identify three types of heuristics: representativeness, availability, and adjustment and anchoring. Availability is the most important heuristic regarding how individual or organizational objectives are selected. Availability is applied in situations where “people assess the frequency of a class or the probability of an event by the ease with which instances or occurrences can be brought to mind” (1974, p. 1127). As Tversky and Kahneman indicate, the availability heuristic is useful for entrepreneurs that wish to evaluate the probability that a certain business venture may fail by recalling various problems that other business ventures have faced. An individual’s ability to recall events is “affected by factors other than frequency and probability” such as familiarity, salience, and recent occurrence. This explains why dominant organizational models remain dominant: individuals select, recall and choose things that are familiar or well known to them. Similarly, problems can arise for organizations when their management or members over-identify with a cognitive model that is out-dated or unreliable because it is familiar to them or was particularly successful in the past. Problems can also arise for organizations that select or adopt strategies and practices based on a handful of salient or popularized observations from similar or competing organizations.

Representativeness is a heuristic “in which probabilities are evaluated by the degree to which ... A resembles B” (1974, p. 1124). For example, if there is a common assumption that co-operative organizations are predominantly located in the agricultural sector, this may assist an individual that is identifying which organizations are co-operatives given a list of organizations and a description of their core activities (i.e., marketing agricultural commodities). However, this may also limit the identification of organizations that are co-operatives that operate in other sectors. Further, if the assumption is inaccurate or out-dated, poor decision-making may also result.

Adjustment and anchoring affects an individual’s decision-making as “people make estimates by starting from an initial value that is adjusted to yield the final

answer.... [t]he initial value ... may be suggested by the formulation of the problem, or it may be the result of a partial computation” (1974, p. 1128). The anchoring effect was significant in the Saskatchewan Wheat Pool’s decision to close hundreds of grain elevators in rural Saskatchewan and replace them with 22 inland grain terminals. According to Lang and Fulton (2004), “the construction of new country elevator facilities, appears to have been built on a belief that the Pool had access to a large and committed membership.... [t]his belief, however, was incorrect” (p. 250). The Pool operated from the belief that they would retain members and market share following their decision to close the local grain elevators; they failed to realize that their members’ loyalty was strongly connected to the community grain elevator. The significant decline in market share that the Pool experienced following the elevator closures suggests that they did not adjust their cognitive model to adapt to this consideration.

#### ***2.4.2. Cognitive models and decision-making in the organization***

For organizations the maintenance of a common cognitive model is complicated because “the organization objective is, indirectly, a personal objective of all the participants” (Simon, 1997, p. 15), and because organizations have finite resources to ensure that their participants identify with a shared organizational objective. Therefore, since members have different cognitive models or ways of interpreting the world, it is necessary that the members of the organization identify with a common organizational logic in order to secure coordination in decision-making and in the establishment, maintenance, and completion of objectives. An organizational logic is a formative part of an individual’s cognitive model as it acts as a heuristic that filters information that is gathered from the surrounding environment.

An organizational logic is a construct, a value-based idea that is a starting point for decision-making. According to Simon, “the decision-making process must start with some ethical premise [or value-based premise] that is taken as a “given” [an organizational logic]” (1997, p. 56). This “given” or starting point is the product of some cognitive awareness that is attributable to an outcome of heuristic reasoning and/or identification with a set of objective truths. Further, Simon argues that “for an ethical proposition to be useful for rational decision-making, (a) the values taken as organizational objectives must be definite, so that their degree of realization in any

situation can be assessed, and (b) it must be possible to form judgments as to the probability that particular actions will implement these objectives” (1997, p. 59-60). From this perspective, the appropriateness of the decision is evaluated on whether the means, the substantive activities, derive the desired ends. Thus, identification with a logic informs the organizational form that the members select, which will necessarily affect the day-to-day operational objectives of the organization; typically, the members will continue to identify with the organizational form and logic so long as it meets their needs.

Organizational logics, as described in this chapter, resemble what Bager (1996) identifies as the “basic logics” of five organizational types:

for-profit companies follow, predominantly rooted in the market, an individualistic “helping myself” logic; public enterprises usually follow, predominantly rooted in the state, a collective “helping all” logic; cooperatives, family enterprises and non-profit organizations follow social logics with mixed institutional roots, while diverging into a “helping ourselves” logic (cooperatives and family enterprises) and a “helping others” logic (non-profit organizations). (1996, p. 28)

Thus, as individuals identify and relate these “basic logics” to specific organizational forms and activities, they select the logic and organizational form that they deem to be institutionally relevant and appropriate for meeting their specific objectives. These “basic” or organizational logics have a direct relationship to organizational form as the motives and objectives of the entrepreneur are indicated vis-à-vis the ownership structure. This connection goes beyond the identification and actualization of particular and temporal organizational objectives; selecting an organizational form is inherently a value-based decision, particularly as these logics represent the core principles of specific organizational forms. In other words, the behaviour of any organization as it conducts its primary activities is or should be reducible to its correlative logic.

Working from this notion that an entrepreneur identifies with a specific organizational logic, it is important that other members of the organization also identify with this logic in order for the organization to maintain its objectives and coordinate its activities. As Simon (1997) suggests, not all members of an organization will identify with the objectives of the organization to the same extent. Within complex systems, like organizations, it is expected that members or subgroups might identify with competing

objectives or strategies while maintaining an identification with the core principle of the organization.

## **2.5. Identification**

Cognitive models and heuristics enable individuals to identify with an organizational logic, set of objectives, and strategies, by filtering the information that individuals gather from their surroundings. When members of an organization identify with a common logic or set of objectives, this facilitates and secures the coordination of the activities of the organization. As Simon states:

It is the organizational identification of members, more than any other of their characteristics, that gives organizations their remarkable power to secure coordinated behaviour of large numbers of people to accomplish organizational goals, thereby playing a major role during the past two centuries in the rise of modern organizations and in their successful competition with traditional market mechanisms. (2000, p. 753)

Therefore, with uncertainty present, identification with a logic or objective allows decision-makers to filter information and make decisions. For the organization, identification is important as it enables employees and decision-makers to make quick appraisals of a situation and determine a course of action from a limited set of organizational aims.

Since individuals have different cognitive models, not all members of an organization will identify with their organization's logic and/or objectives to the same degree. First, organizational members may act as autonomous individuals or entities and "strive rationally to advance their own personal goals, which may not be wholly concordant with organizational goals, and often even run counter to them" (Simon, 1997, p. 88). In other words, they may lack identification with the logic or objectives of the organization, and this can negatively affect the coordination of the activities of the organization. This is especially true since a lack of strong identification with an organizational logic and objectives makes it easy for an organization or a new management team to rapidly switch between objectives, often replacing a reliable or compatible logic or objective set with one that is unknown, hyped or incompatible.

Second, members may over-identify with the logic, objectives or strategies of an organization. Serious problems can arise when decision-makers over-identify with a

particular strategy or objective and are incapable of shifting their mindset or cognitive framework from out-dated, albeit familiar positions. As Simon states:

it [over-identification] causes excessive influence of existing organizational practices and identifications upon decisions that should be adapting to a changing world. This is the major cause for the difficulty that organizations, even very successful ones, experience in trying to respond to rapidly changing opportunities and challenges, and why they are often outpaced by new organizations that do not carry the same burden of outmoded knowledge and habit. (2000, p. 753)

According to Simon, over-identification is the primary reason that established and successful organizations fail to adapt to a changing environment.

Over-identification and lack of identification with a common organizational logic or set of objectives are influenced by an individual's heuristics as they filter information from the surrounding environment. For members of an organization, this environment includes the endogenous pressures of the organizational environment; for instance, policies and procedures concerning workplace regulations, internal training, and labor contracts can influence organizational or departmental cultures creating a more or less supportive environment among managers and employees.

Exogenous pressures from the community, state, and the marketplace also affect organizations and their members; for instance, legislative and regulatory pressures from public agencies or professional associations may force an organization to change its business practices.

These endogenous and exogenous pressures, which are also referred to as isomorphic pressures, influence the way organizations and their members see the world, and the organizational objectives, values, and logics with which they identify. Acting exogenously, these pressures effectively normalize the dominant perspectives of economic sectors across organizational types; endogenously, these pressures normalize the dominant perspectives of the organization among the membership.

### ***2.5.1. Isomorphic pressures***

Organizations are not only constrained by the heuristics that their decision-makers and members select, but they are also subject to the constraining effects placed on them and their respective sectors via isomorphic processes. Applying Hawley's (1968) description, DiMaggio and Powell state that "isomorphism is a constraining process that forces one

unit in a population to resemble other units that face the same set of environmental conditions” (1983, p. 149). Isomorphic processes occur as “rational actors make their organizations increasingly similar as they try to change them” (DiMaggio and Powell, 1983, p. 147) or because some “rational actors” are purposively making their organizations similar to others. Isomorphism provides some explanation as to why organizations might over-identify with a goal or logic while others disengage from the imaginative process of selecting an appropriate objective.

DiMaggio and Powell identify three isomorphic mechanisms or pressures that influence organizations: (1) coercive isomorphism; (2) mimetic isomorphism; and (3) normative isomorphism. Although the authors recognize that these typologies “are not always empirically distinct... they tend to derive from different conditions and may lead to different outcomes” (1983, p. 150), they are useful for considering the homogenizing forces that affect organizations.

DiMaggio and Powell argue that “[c]oercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function” (1983, p. 150). In terms of formal pressures on the organization, state controls like the existence of appropriate legislation (or the lack thereof) can influence the development and behaviour of organizations vis-à-vis other organizational types; state controls can also have an internal impact on the (power) relationship that exists between management and members of the organization. For example, in 1969 the employees of Sherwood Co-op in Regina, Saskatchewan went on strike as a result of a collective bargaining dispute between management and employees. During the strike, the directors denied two requests by the members to hold a special meeting (pursuant to the *Co-operative Associations Act*) to discuss the ongoing labor negotiations (Ish, 1997, p. 8). Following this, the members sought a court order requiring the directors to call the meeting. However, the Saskatchewan Court of Appeal sided with the directors and denied the court order; as Ish states, “[t]he court went on to compare the position of members to that of shareholders in an ordinary business corporation and concluded that the *Co-operative Associations Act* contained nothing that would distinguish co-operatives from ordinary corporations with respect to the vesting of power in the board of directors”

(1997, p. 9). This example is significant as it illustrates how coercive pressures from the state can legitimate and normalize the behaviour and roles of managers and directors – for instance, institutionalize normative pressures – despite the interests and concerns of the members, who are the owners and users of the organization.

DiMaggio and Powell suggest that uncertainty is another force that constrains organizations and compels them to imitate each other. This is mimetic isomorphism. Modeling is an important way that mimetic isomorphism can occur in the design of organizations. Organizational decision-makers model their organizations after successful competitors, sister or parent organizations, or organizations that dominate their sector. Applying heuristics like availability (familiarity, salience, dominance) and representativeness, decision-makers can search out successful or profitable strategies to mimic. Another factor that influences organizations (members, stakeholders, decision-makers) to mimic each other is a desire to legitimate their structure, roles, values and/or objectives. Again, these organizations select models from the dominant or successful organizational types to accomplish this. According to DiMaggio and Powell, these models can be transmitted or diffused implicitly or explicitly: implicitly by employee transfer or turnover, or explicitly by organizations such as consulting firms or trade associations (1983, p. 151). Of course, this is not exhaustive as organizations can gather information via other means of communication and observation (i.e., industry publications and conferences).

Fairbairn (2003) provides an example of mimetic isomorphism among member retails of Federated Co-operatives Limited (FCL), a large retail co-operative operating in Western Canada. During the 1970s a number of the retails mimicked their competitors and constructed large malls filled with co-op stores: food, hardware, sporting goods, furniture and clothing. The rationale was simple: “Co-op people, proud of what they had accomplished, wanted to build stores just like the best ones they knew. Their mental models came from the recent past, not the near future” (Fairbairn, 2003, p. 27). For some of the retails, like the one in Salmon Arm, BC, the decision to build a mall effectively put the co-op out of business when interest rates went through the ceiling during the recession of the 1980s.



The third type of isomorphic pressure that DiMaggio and Powell describe is normative isomorphism; this form of isomorphism is transmitted or diffused implicitly through the formative experiences and training of organizational members and prospects. Normative isomorphism stems primarily from professionalization, which is referred to as “the collective struggle of an occupation to define the conditions and methods of their work, ... and to establish a cognitive base and legitimation for their occupational autonomy” (DiMaggio and Powell, 1983, p. 152). Co-operative organizations are particularly affected by professionalization as the curriculum for most management programs (both undergraduate and MBA programs) focuses on for-profit business organizations rather than co-operatively owned organizations. Normative influences resulting from professional training at universities or training institutions are “important centers for the development of organizational norms among professional managers and their staff” (DiMaggio and Powell, 1983, p. 152). As a result, if a co-operative organization wants to hire individuals with an educational background in management, the co-operative has little option but to hire individuals who do not necessarily identify with the co-operative organizational type or its logic, as these individuals are educated about and identify (or over-identify) with IOFs. Because the cognitive model these individuals have identifies more with IOFs than with co-operative organizations, and because these individuals hold dominant positions in co-operative organizations, they have the ability to influence the behaviour of the co-operative so that it might mimic the business practices of IOFs. This might reinforce or normalize the co-operative organization’s practice of hiring individuals who graduate from management programs that focus on IOFs rather than co-operatives or other types of organizations.

### ***2.5.2. Control and autonomy***

Organizations strive for congruency of thinking and action, as coordination is enhanced when all members identify with a similar organizational logic or objective. However, this congruency is difficult to achieve because members of organizations identify with multiple, varied and sometimes competing objectives from those that their organization prescribes. As a result, organizations may attempt to induce (coerce) their members to identify with the organization’s logic or objectives, where this congruence does not occur naturally. According to Loasby, “[t]he maintenance of organi[z]ational cohesion is the

function of a management control system: by measuring a manager's performance in terms of ... [their] ... contribution to overall objectives, and motivating ... [them] ... to improve the performance so monitored, formal methods of control are intended to ensure the effective jointness of managerial and organi[z]ational objectives" (1976, p. 138). The management control system is an isomorphic mechanism as it forces individuals to act in similar ways, especially as it applies both formal (economic and legal arrangements and contracts) and informal (loyalty, prestige, advancement) techniques of coercion.

Moderating the management control system is critical to an organization's cohesion and coordination, since over-identifying with a particular cognitive model can limit the organization's capacity to innovate. A lack of identification can also lead to a variety of problems – principal-agent problems, free-rider problems, and influence costs problems – that may cause the organization to fail. Therefore, for organizations to adapt and respond to changing circumstances, it is important that the organization's control system operates as a reflexive apparatus that can be used to provide members of the organization with more or less autonomy to make decisions as appropriate. The control system is important as it can be used to influence the degree to which members choose to identify with the cognitive model (including the logic and objectives) of the organization. However, there are costs and benefits associated with the use of the control system and the degree of autonomy that the organization provides:

On the one hand, the absence of tight control may make it easier to accept membership of a group among whose members one suspects are some with rather different preferences: tight control may specify a contract in ways which make it unacceptable.... On the other hand, the freedom to exercise discretion within fairly generous limits may be a major component of the manager's preference set. But if this freedom is being used as an inducement to join the organization, then the manager is being offered, not merely a chance to join in the formulation of the organization's objectives, but the right, within limits, to pursue his own objectives when making decisions as an employee. Thus the attempt to align individual and organizational objectives through a formal control system may actually impede managerial performance. (Loasby, 1976, p. 138)

There are, of course, other ways that organizations can influence their members' identification with an organizational logic or set of objectives aside from coercive pressure via the management control system. Organizations can provide their members with training and education that supports its objectives. Organizations can also filter

potential members to ensure that their cognitive models are compatible with the organizations. DiMaggio and Powell state:

filtering occurs through the hiring of individuals from firms within the same industry; through the recruitment of fast-track staff from a narrow range of training institutions; through common promotion practices, such as always hiring top executives from financial or legal departments; and from skill-level requirements for particular jobs. (1983, p. 152)

In this sense, filtering is a normative pressure associated with professionalization of organizational management and directors.

## **2.6. Theoretical assumptions**

Organizations can be conceptualized in many ways – as mechanisms to internalize transactions that occur in the marketplace (Coase 1937), as systems that integrate individuals into modern industrial society (i.e., Barnard 1968), and as social-historical constructions (see Alvesson and Deetz 2006). This thesis recognizes that organizations exist both as a social construction (e.g., existence is predicated on an individual's or group's image of the world) and as pragmatic instruments to do things (e.g., employ individuals to do things, mobilize resources (including physical assets) to realize an organizational goal or objective). More specifically, the thesis provides a framework for understanding how the choice of organization form – which is effectively a question of *how* to do things – is related to individuals' and groups' views of the world.

This thesis also recognizes that issues surrounding the control, transmission, and structure of knowledge and power in the organization further complicate these conceptions of the organization (see Reed 2006). Critical theorists and post-modernists argue that knowledge, people and social relations as they exist in organizations are socially constructed, thereby challenging notions that the world is natural, rational and neutral (Alvesson and Deetz, 2006, p.273). These critical approaches are valuable in terms of unpacking the discourses that inform the dominant conceptions of the market, the state, the third sector, and the role of the organization. This thesis integrates these critical approaches with rationalist and economic conceptualizations of the organization as it develops a conceptual framework for understanding organizational decision-making.

Adopting a pluralistic approach to the study of the organization, this thesis engages the ideas and language of rationalist (Simon 1997; 1991; Cyert and March 1963)

and economic traditions (Coase 1937; Knight 1921). Both of these traditions provide the idea that individuals' incomplete knowledge of the world is a basis for group action. Organizations enable individuals to cope with this incomplete knowledge; the choice of organizational form determines the allocation of rights to assets to the various organizational members (e.g, owners, users, members, managers and/or employees). Since the manner in which the rights in an organization are expressed vis-à-vis the choice of organizational form is linked to knowledge and power in the organization, the framework developed in the thesis also requires post-modern and critical theory perspectives of the firm.

To bring these quite varied perspectives together, the thesis develops a framework that analyses the choice of organizational form according to an individual's or group's identification with the organizational logic and property rights structure that corresponds with a particular organizational form. Since an individual's or group's identification with a particular organizational logic or property rights structure indicates a preference to extend or exclude rights and benefits to other individuals, this thesis assumes that decisions that relate to and/or affect the choice of organizational form are value-based decisions that illustrate moral positions.

Furthermore, as the framework developed in this thesis examines the responses of the organization to the external environment, it highlights the role of other organizations and sectors on the cognitive model and property rights structure of the organization. In this way, it assumes a neo-institutional orientation as it is concerned with the intersection of ideology on the decision-making behaviour and structure of the organization. Specifically, the framework focuses on understanding the role of dominant organizations in society on co-operative organizations. As such, the neo-institutional orientation of the proposed framework differs from strict market-based theories of organizational selection and determination. While the thesis resists notions of an evolutionary process that determines the makeup of the organizational environment, the proposed framework can be used to unpack some of the trends that might lead one to believe that deterministic or evolutionary processes are at work.

## **2.7. Concluding remarks**

This chapter began by arguing that because individuals are partially ignorant, they adopt cognitive models that selectively limit the information they take in. They also form organizations to help them coordinate activities, gather information and make decisions so that they can do things that they could not do individually. However, the activities of the organization are complicated by bounded rationality, the cognitive models that organizations and their members select to meet their objectives, and by changes to the surrounding environment that require coordinated group responses. For organizations to successfully respond to these challenges they need to find an appropriate balance between organizational identification, on the one hand, and individual autonomy, on the other hand, to remain innovative and able to adapt to a changing environment. To that end, organizations must be cognizant of how their own cognitive models relate to those of their members and other organizations. If decision-makers are aware of how their decisions may affect the cognitive model of their members or the organization, they have the ability to influence both the organization's and the members' sense of autonomy and identity. The following chapter develops a framework for analyzing organizational decision-making, specifically, the choice of organizational form.

### Chapter 3: Choosing an Organizational Form

Individuals form organizations to deal with the complex world around them, to make decisions and form objectives and, generally, to cope with the constraints imposed by what Loasby calls partial ignorance. The choice of organizational form is an important first step that groups face; it involves imagining, communicating, and compromising to achieve identification with and loyalty to a specific organizational form and logic. Further, the choice of organizational form influences and directs the behaviour of the organization as the property rights structures of different organizational forms correspond to different organizational logics and values that affect the way that organizations operate in the world. Therefore, identification is important because coordination, as Simon (2000) argues, is secured when members of an organization identify with the objectives of the organization.

This chapter develops a conceptual framework to analyze the choice of organizational form vis-à-vis the mode of identification that an individual holds towards the dominant organizational logic and property rights conception of society. This conceptual framework relates the work of Pêcheux (1983) concerning the mode of identification that an individual might have toward the dominant ideology of society to Mintzberg's (1996) conceptual model for analyzing shifts in organizational form and behaviour.

This chapter argues that because the dominant conception of property rights in capitalist Western societies coincides with the organizational logic of the investor-owned firm (IOF), individuals and groups identify with the IOF more than other organizational forms (i.e., state-owned enterprises (SOEs), non-governmental organizations (NGOs), or co-operatives). While some organizational forms, like the SOE, are considered to be an alternative to the IOF, the presence of SOEs legitimates the dominant ideology and property rights conception, thereby maintaining the notion of the IOF as the dominant organizational form. Co-operatives, on the other hand, *work on and against* the dominant

ideology and property rights conception of Western societies, enabling an alternative conception of property rights that includes a right not to be excluded from the use or benefits of a resource. Moreover, this discussion will both illustrate and support the idea that the co-operative organization has a dual nature: both enterprise and association. Finally, this chapter applies a social movements perspective to unpack the neoclassical economics perspective that co-operatives are temporary or transitional organizations that occur as a response to market/state failure. This discussion suggests that co-operatives may form for economic and non-economic reasons alike. Specifically, it proposes that individuals form co-operatives because the open and voluntary character of the organization extends property rights to a resource to individuals that might not otherwise have access to such a resource, enabling them to assert their local, cultural or class solidarities.

### **3.1. Identifying, counter-identifying and dis-identifying**

Identification is the first step in the process of selecting an organizational form. It is the act whereby an individual or group internalizes an association or an affinity with an idea (i.e., a value, belief, ideology, or logic) that can be extended to a specific object. For example, the decision to start an investor-owned firm (IOF) to process raw wood from a nearby forest rather than join other forestry workers in establishing a worker-owned co-operative indicates an identification with an individualistic “helping myself” organizational logic. Generally, individuals identify with those organizational forms and logics that are congruent with the values, beliefs and ideologies that comprise their cognitive models. Further, because cognitive models are the product of heuristic reasoning that is informed by the surrounding social, economic, and political environment, the worldviews (including the ideologies, belief systems, and organizational logics) that dominate a society influence the organizational form that an individual identifies with. Similarly, the predominance of a specific organizational form and property rights structure influences the way that individuals think about organizations and ownership.

For those individuals who do not identify with the dominant organizational forms of society, the choice of an alternative organizational form is in many instances a political

act that resists the dominant economic and political discourses, and seeks to legitimate new modes of thinking that advance new models of economic and political participation. Identification with a specific organizational form – IOF, SOE, co-operative, or NGO – can be analyzed in terms of that form’s congruency with the dominant ideology and value system of a society. Evers suggests, “that state, market and community areas are each expressing the dominance of specific rationales” (1992, p. 15). Presumably, the rationales of the state (accountability, universalistic orientations, rules and standards) coincide with the organizational logic of the SOE, the rationales of the market (individual choice, anonymity, efficiency) with the IOF, and the rationales of the community sector (personal obligation, social integration) with the co-operative.

French linguist Michel Pêcheux (1982) developed a conceptual framework that situated an individual’s mode of thinking according to their identification with the dominant ideology of a society. Pêcheux proposed three types of consent that an individual might have toward the dominant ideology of a society. Pêcheux’s first type of consent is an *identification* with the dominant ideology of a society. According to Pêcheux, “Identification is the mode of ‘good subjects’, those who ‘freely consent’ to the image held out to them while ‘bad subjects’, trouble-makers, refuse it” (1982). The second type of consent is a *counter-identification* with the dominant ideology. Counter-identification is the mode of those “bad-subjects” or “troublemakers”, who do not consent to the dominant ideology. According to Pêcheux, counter-identification is reproduced in the “philosophical and political forms of *the discourse-against* (i.e., *counter-discourse*) which constitute the core of humanism (anti-nature, counter-nature, etc.) in its various theoretical and political forms, reformist *and* ultra-leftist” (1982, p. 157; emphasis in original). The third type of consent that an individual might have toward the dominant ideology of a society is a *dis-identification*. Dis-identification is the mode of those individuals that do not identify with either position. For Pêcheux, these individuals work “*on and against*” the prevailing ideology (1982, p. 159; and Macdonell, 1986, p. 40; emphasis in original only).

Beck (1995) also identifies “three types of consent to the industrial dynamic [that] are discernible — one positive, one negative and one cynical” (p. 65); these correspond to Pêcheux’s three positions, respectively. Castells (1997) describes three forms of identity



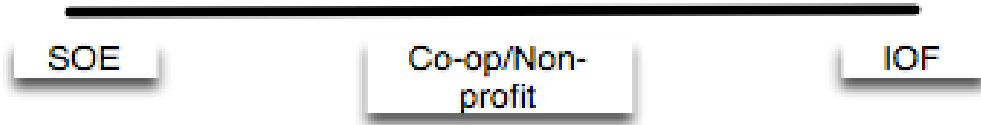
building that also correspond to Pêcheux's positions. The three forms are: legitimizing identity; resistance identity; and project identity.

### **3.2. Mapping identification, counter-identification and dis-identification**

Extending Pêcheux's framework to an analysis of organizational form in a capitalist society, this chapter argues that in general terms the IOF is held in a position of identification with capitalist ideology, as it exemplifies many of the rationales that characterize the market sector (individual choice, efficiency, profitability). These market rationales are expressed in the "helping myself" organizational logic of the IOF. Alternatively, the SOE is held in a position of counter-identification with capitalist ideology and the rationales of the market sector, as the SOE is normally identified with communist or socialist ideology and the rationales that characterize the state sector. These rationales are expressed by the "helping all" organizational logic of the SOE. Co-operative organizations are held in a position of dis-identification with capitalist and socialist ideology, as the co-op *works on and against* these ideologies and the rationales of the market and state sectors. Similarly, the "helping ourselves" organizational logic of the co-operative bends the "helping myself" and "helping all" organizational logics of the IOF and the SOE, respectively.

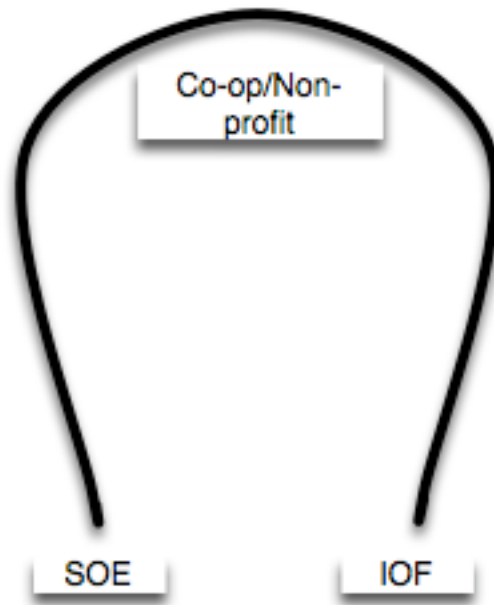
Teleological representations that place co-operatives in the middle of an evolutionary ladder from market to centrally planned economy or vice versa reaffirm the conventional perspective of an organizational continuum with SOEs on one side and IOFs on the other. This perspective is shared by ideologues on both sides of the state versus market debate, as Evers (1992, p. 3) observes, "Both sides propose a unidimensional concept which seeks to locate the bulk of all regulatory power in one sphere of society." Moreover, such perspectives reaffirm notions of co-operative organizations as transitional organizational forms that are used either to: (1) to shift economies from state to market systems (or vice versa); or (2) to fill gaps left behind by state or market failures. Figure 3.1 illustrates this conventional model of an organizational continuum.

**Figure 3.1: Conventional model of the organizational continuum.**



Mintzberg (1996) bends the conventional perspective of the organizational continuum and places SOEs and IOFs side by side. Arguably, Mintzberg’s re-imagining of the organizational continuum dis-identifies with the unidimensional and teleological perspectives that dominate organizational literature. He argues that the conventional political perspective that places the four forms of ownership along a straight line starting with state ownership on the left, co-operative ownership and non-ownership in between, and private ownership on the right is misleading. Mintzberg states, “what seems like a straight line is really more like a horseshoe” (1996, p. 76). Based on the ideas of Mintzberg Figure 3.2 presents a horseshoe model for understanding organizational form.

**Figure 3.2: Mintzberg’s horseshoe model of organizational form.**



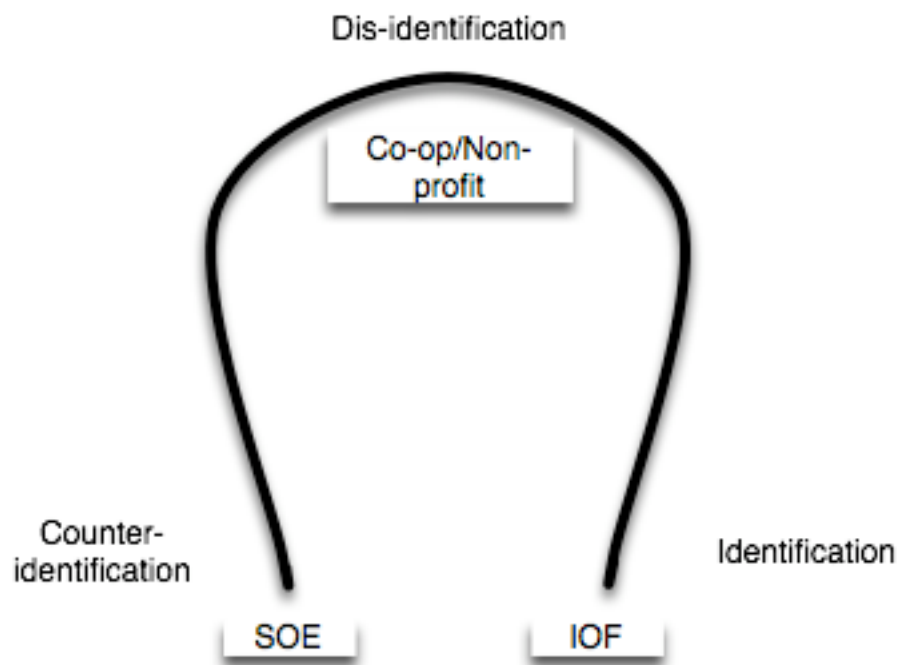
The competing modes of thinking and identification that exist among and between these various organizational forms can be illustrated by superimposing Pêcheux’s framework for analyzing ideological consent on to Mintzberg’s horseshoe model. The revised model illustrates the positions of identification, counter-identification and dis-

identification, as they relate to private ownership, state ownership, and co-operative ownership, respectively. In other words, the revised model highlights the linkage between ownership and cognition/behaviour. As Bager states:

Organizational forms ... encompass two sides: *an ownership and control side*, which among other things defines the possession of the ultimate decision-making power; and a *goal and benefit side* which is no simple mirror image of the ownership and control side. (1996, p. 29; emphasis in original)

In this way, the revised model can be used to describe and map organizational behaviour, as the ownership or property rights structure of the organization is linked to identification with a cognitive model. Figure 3.3 presents the revised model, which superimposes Pêcheux's framework on to Mintzberg's horseshoe model.

**Figure 3.3: Mintzberg's horseshoe model mapped onto Pêcheux's framework.**



Mintzberg argues that the ownership and control side of the IOF and SOE are more interchangeable with each other than with other forms of ownership. This argument is central to the idea of conceiving the organizational continuum as a horseshoe rather than a straight line. Mintzberg states:

As a horseshoe representation of the four forms of ownership would suggest, the leap between state and private ownership can be made more easily than a

shift to nonownership or cooperative ownership. That may be why so much of our attention has focused on nationalization versus privatization. The leap is so simple: Just buy out the other side, change the directors, and keep going; the internal control systems remain intact. (Mintzberg, 1996, p. 76)

Arguably, Mintzberg's thinking is influenced by two complementary developments. The first is a move toward privatization experienced throughout many nations, beginning in the United Kingdom under the Thatcher government and, today, extending throughout the world, most noticeably in the former communist nations. Megginson and Netter (2001, p. 321), in their survey of empirical studies on privatization, suggest more than 100 countries have adopted privatization as a tool of state-craft.

The second development is a move by managers of SOEs and other organizations to mimic the behaviours of their IOF counterparts. Mintzberg identifies several IOF management strategies that SOEs have adopted. In fact, strategies of mimetic decision-making have been advocated by academics working in the field of strategic management. For instance, Prahalad and Bettis argue, “[s]trategically similar businesses can be managed using a single dominant general management logic” (1986, p. 490; emphasis removed). This development is also linked to an on-going professionalization of organizational managers, as a growing number of SOE and co-operative managers are graduates of business schools who focus primarily on IOF management.

Importantly, both Pêcheux's framework and Mintzberg's model permit this conceptualization of the IOF and the SOE as interchangeable organizational forms, as they view these organizational forms and their correlative modes of identification as opposite sides of the same coin. Conceiving the IOF and the SOE in this way has significant implications with respect to how individuals understand co-operative organizations. From this perspective, it is difficult to conceive of the co-operative as simply some transitional organizational form; rather, a more sophisticated conception is required.

### **3.2. Exploring organizational identification from a property rights approach**

Identification with an organizational form and logic indicates a preference to extend or exclude the rights of ownership to others. For instance, identification with the “helping myself” logic of the IOF suggests a preference to exclude others from the right to use

and/or benefit from the organization; whereas, if someone opposes the exclusionary logic of the IOF, they may identify with the “helping all” logic of the SOE, which suggests a preference to extend to others the right to use and/or benefit from the organization. In this way, organizational logics are useful heuristics for distinguishing between and choosing from different organizational forms, as they correspond with different property rights structures.

Reflexively, the way that individuals commonly perceive property, and specifically the idea of property rights, can affect the organizational form and logic that they identify with. As Alchian and Demsetz state, “[property rights] are socially recognized rights of action” (1973, p. 17). In other words, property rights are a social construct linked to the ideological mindset of a society, which influences individual and group behaviour. Macpherson argues:

the concept of property which now prevails in Western societies ... is fully appropriate only to autonomous capitalist market societies: this is the concept of property as (a) identical with private property – an individual (or corporate) right to exclude others from the use or benefit of something; (b) a right in or to material things rather than a right to a revenue (and even, in common usage, as the things themselves rather than the rights); and, (c) having as its main function to provide an incentive to labour, as well as (or rather than) being an instrument for the exercise of human capacities. (1973, p. 123)

Therefore, in Western societies, the IOF is the dominant organizational form since the way that individuals think of property and property rights, as a right to exclude others, is congruent with the ownership structure of the IOF. Working from this starting point, the SOE is considered to be the counter-organizational form because, as it helps all, it also excludes individuals rights to a resource; for instance, it excludes them from establishing their own IOF. The co-operative, on the other hand, works on and against the dominant property rights conception as it enables an alternative conception of property rights that includes a right not to be excluded from the use or benefits of a resource. The following sections examine why individuals identify with the property rights structure of one organizational form rather than another; in doing so, it examines how individuals understand property, and considers the implications that such understandings have on the capacity of individuals to affect change.

### **3.2.1. Investor-owned firms**

According to Macpherson, “property is both an institution and a concept and that over time the institution and the concept influence each other” (1977, p. 1). Following this thinking, Fulton (1995) suggests that individuals commonly perceive property as both a *private* institution and a *right to exclude*. This understanding stems from the prevailing conceptualization of property rights as referring to the “*sanctioned behavioural relations among men that arise from the existence of things and pertain to their use*” (Furubotn & Pejovich, 1972, p. 1139; emphasis in original). According to this perspective, “it is not *the* resource itself which is owned; it is a bundle, or a portion, of the rights to *use* a resource that is owned” (Alchian & Demsetz, 1973, p. 17; emphasis in original). This bundle of rights to a resource generally consists of (1) the right to use it, (2) the right to retain its profits, (3) the right to change its form and substance, and (4) the right to transfer some or all rights to the resource to somebody else (Tietzel 1981, p. 210; in Kramer, 2006, p. 8; and, Furubotn & Pejovich, 1972, p. 1139-40). Since this bundle of rights is equated with the idea of property as something private – Furubotn and Pejovich indicate that it is this bundle of rights that defines ownership of the classical capitalist firm (1972, p. 1148; citing Alchian & Demsetz) – it also indicates the ways in which individuals are excluded from a resource if they do not own it.

Fulton argues that the growing trend toward private ownership, as exemplified by a preference for IOF formation, results from a growing language of individualism among North Americans. For Fulton, “the notion of individualism is really one of exclusion, of being left alone, of having freedom ... freedom from the demands of others” (1995, p. 1148). Therefore, as individuals and groups conceive of property as something that is held individually rather than in common, they identify and choose the IOF to other forms of organizations.

This logic of individualism finds its roots in changes to the concept of property that coincided with the onset of capitalism and the industrial revolution. Macpherson indicates that it was at this time that arguments about property focused solely on private property. He states, “So David Hume, who saw the protection of property as the chief business of government, could define property as an individual’s right to use to the exclusion of others” (1973, p. 125-6). At this time, Macpherson indicates that “more and

more land and resources ... was becoming private property, and private property was becoming an individual right unlimited in amount, unconditional on the performance of social functions, and freely transferable, as it substantially remains to the present day” (1973, p. 126).

### **3.2.2. State-owned enterprises**

In response to this dominant property rights perspective, Macpherson argues that property can also be conceived of as a right *not to be excluded from* something that is held in common. Macpherson states:

An enforceable claim of an individual to some use or benefit of something equally includes his right *not to be excluded from* the use or benefit of something which society or the state has proclaimed to be for common use. (1973, p. 124; emphasis in original)

Macpherson asserts that the right to use common property is a right of individuals, not the state. He argues:

The state indeed creates and enforces the right which each individual has in the things the state declares to be for common use. But so does the state create and enforce the exclusive rights which are private property. In neither case does the fact that the state creates the right make it the property of the state. In both cases what is created is a right of individuals. The state *creates* the rights, the individuals *have* the rights. (1973, p. 124; emphasis in original)

Macpherson separates the role of the state in determining which rights individuals have to things that are in common use from those properties that are held by state. State property is for Macpherson, “a right of a corporate entity – the state or the government or one of its agencies – to exclude others, not ... an individual right not to be excluded” (1973, p. 123). Therefore, state property (i.e., an SOE) is a form of private property, since state property like other forms of private or corporate property excludes individuals from using that resource themselves. This does not negate the idea that the logic of the SOE is to “help all” members of a particular society; rather it suggests a paternalistic relationship with the state acting as a benevolent provider. In this capacity, the state legitimates the dominant conception of property, as state intervention restricts the rights that an individual or group has to use a resource for their own benefit.

For example, in Canada, SOEs have provided individuals with access to goods or services that the market failed to supply. In these situations, the state attenuates some property rights of the SOE to individuals, such as access for individual use and financial

savings. However, the SOE retains a corporate right to exclude or restrict individuals from certain forms of access, use or benefit. For instance, SOEs that generate and distribute electricity across a grid have long held a corporate right that excludes access to the grid for individuals wanting to generate or distribute electricity across the system. This corporate right exists despite the fact that these organizations were initially developed in order to ensure that all members of a jurisdiction, especially those living in sparsely populated rural and remote areas, had access to electricity at a fair price.

Marketing boards are another type of SOE. Marketing boards have a corporate right to market the products of agricultural producers in a given jurisdiction. Generally, marketing boards provide producers with a higher price for their agricultural commodity as the marketing board pools the producers' supply to maximize economies of scale. For example, the Canadian Wheat Board (CWB), through an act of Parliament, has the right to market all of the wheat grown in Western Canada. This corporate right of the CWB restricts producers from directly marketing their grain to buyers either as an individual producer or through their membership in a co-operative organization without first receiving authorization<sup>1</sup> from the CWB.

### ***3.2.3. Co-operatives***

Co-operatives are generally conceived as a form of common property, as members of a co-operative are not excluded from the right to use or benefit from the activities of the organization. Fulton states, "the idea of common property coincides closely with the co-operative principles regarding membership and earnings distribution" (1995, p. 1149). With respect to membership, the co-operative principle of voluntary and open membership states:

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination. (MacPherson, 1996, p. 1)

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<sup>1</sup> Producers must perform a Producer Direct Sale (PDS) in order to market their grain outside of the CWB's control. To complete a PDS, the producer must sell their grain to the CWB for the pooled price and then buy it back at the CWB price for grain in the buyer's country.



The condition that co-operatives are “open to all persons able to use their services” corresponds with the idea of negative liberty<sup>2</sup> (or what Macpherson describes as “counter-extractive liberty”) that individuals are “immun[e] from the extractive power of others (including the state)” (Macpherson, 1973, p. 118). In this way, members of a co-operative have an individual right not to be excluded from the use or benefit of a resource, which they might otherwise be excluded from, if the resource had been held by an SOE or an IOF. While the condition that co-operatives are open to persons that are “willing to accept the responsibilities of membership” corresponds with the idea of positive liberty (what Macpherson describes as “developmental liberty”), as members of co-operatives are obliged to participate in the democratic and economic activities of the co-op. In this way, the property rights structure of the co-operative fuses both negative and positive liberty in its organizational structure, something that the private/corporate property rights structures of the IOF and the SOE do not do.

Although voluntary and open membership is an important characteristic of the co-operative form, the method by which the economic benefits of the organization are distributed also makes the co-operative a common property. As Fulton indicates, in the IOF the income of the business is shared among the owners of the business and not the users of its services; as well, the assets of the business are tradable, which implies that entrance to the ownership structure is restricted. This distribution of property rights does not occur in co-operatives, as the principle of member economic participation states:

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership. (MacPherson, 1996, p. 1)

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<sup>2</sup> In his seminal essay, “Two Concepts of Liberty”, Isaiah Berlin distinguishes between negative and positive liberty. Berlin indicates that negative liberty includes the application of rules and laws to ensure that individuals have “a certain minimum area of personal freedom which must on no account be violated” (1969, p. 124). For Berlin, positive liberty is freedom to be “one’s own master” (1969, p. 131) and includes non-interference from an authority that institutes rules and laws.

Co-operative ownership is generally difficult to transfer or trade because co-op members hold the organization as common property. For Fulton, tradability is an important distinction between the co-operative and the IOF. He states:

This tradability implies that one person's ownership of a particular set of assets restricts, or excludes, ownership by others. Tradability of assets also highlights the fact that many of the benefits typically ascribed to co-operatives – competitive pricing, provision of service when it would otherwise not be provided – are held in common by all members and cannot be traded. Somewhat more concretely, a portion of the equity of most co-operatives – the portion accumulated as retained, unallocated earnings – is defined as cooperative capital, equity that belongs collectively to all members and is not held in any of their individual names. In an investor-owned firm no such collective capital exists. (Fulton, 1995, p. 1149)

Therefore, as the economic benefit that a member of a co-operative receives is not determined by their capital investment but rather by their economic participation, and since co-operatives practice democratic control based on a policy of one member, one vote, co-operative members are, in general, not unfairly excluded from the ownership/control or goals/benefits sides of the organization. The same could not be said if the organization were operated as an IOF.

#### **3.2.4. *The co-operative as an organization***

This understanding of co-operatives as a form of common property coincides with early co-operative theory proposed by Emelianoff (1942) that suggests that a co-operative is an association of entrepreneurs or private firms. According to Torgerson et al, “Emilianoff developed a conception of a cooperative as pure agency with members as principals” (1998, p. 5). For Emelianoff, the co-operative was not a firm (organization), but rather an association of “economic units each *fully retaining its independence* in seeking profits” (Helmberger and Hoos, 1962, p. 276; emphasis added). Therefore, from this perspective, the co-operative is understood to be a common property of the individual economic units or members of the association.

Conversely, Helmberger and Hoos (1962) conceive the co-operative as a firm (organization) that “embodies persons and *privately* owned physical plant.... It mobilizes factors of production, produces goods and services, and relies primarily on the proceeds from the sale of its products to meet the costs which it incurs” (p. 279-80; emphasis added). In this way, Helmberger and Hoos perform a sleight of hand, as they

conceptualize the co-operative as a private thing, a firm with its own objective function, which attenuates the rights of the individual members to a private agent or peak coordinator. In effect, they legitimate the co-operative by illustrating its similarity to the IOF.

Subsequently, they distinguish the co-operative from the IOF with respect to the objectives of the individual or group that initiates the organization. They state: “Investors in the usual type of business enterprise seek a high return on their investments. When agricultural producers jointly undertake the creation of a cooperative association, they seek goods and services provided at cost” (Helmberger and Hoos, 1962, p. 280). They emphasize that these differences should not cloud the issue: “In both cases, the allocation of economic resources comes under the direction of a “single” authority” (1962, p. 280). Therefore, Helmberger and Hoos conceive the co-operative as an economic individual, an agent that acts on behalf of its members and treats them uniformly, whereas Emelianoff views the co-op as an association or common property of the individual members.

To be clear, Emelianoff’s conception does not exclude the idea of agency; indeed, he conceives the “co-operative as a pure agency with members as principals” (Torgerson, 1998, p. 5). Since the members are each interested in mitigating each other’s opportunities to exclude the access of others to the common property of the association, they hire a peak coordinator to coordinate the activities of the members. Similarly, the members are also interested in ensuring that the peak coordinator is acting on their behalf. To ensure that the peak coordinator is not depriving members of their rights to the common property of the association, the members will likely use a combination of incentives and regulatory checks to ensure that the agent shares the interests of the principals. The difference between Emilianoff’s and Helmberger and Hoos’s perspectives is subtle. From Emilianoff’s perspective, the members are acting individualistically to protect their common interests; according to Helmberger and Hoos, the co-operative is acting individualistically to maximize the interests of its members.

The idea of a co-operative as an association and an enterprise merges these two conceptions of the co-operative. Accordingly, Lambert defines the co-op as “an enterprise formed and directed by an association of users ..., and directly intended to serve both its members and the community as a whole” (1963, p. 231; as cited in Bager,

1996, p. 41). Therefore, turning to the goal and benefit side of the co-operative organization, the common link between Emelianoff's (1942) conception of the co-operative and the one proposed by Helmberger and Hoos is that in both cases the members share a common objective or vision for realizing their individual objectives and realize this vision vis-à-vis their common ownership in the co-op.

In this way, co-op members resist the dominant ownership structure as illustrated by the IOF and the SOE. Their motives are characterized by a different conception of individualism and collectivism: an individualism that seeks autonomy from exclusion; and, a collectivism that rejects paternalism. It is this crisscrossing of individualism and collectivism, as a freedom from exclusion by individuals motivated by a common self interest, that suggests that co-op members dis-identify with the dominant organizational forms and logics. This sort of dis-identification is also noticeable in the objectives and behaviour of social movements.

### **3.3. Co-operatives, social movements, and autonomy**

Co-operatives have long been thought of as transitional organizational forms that are developed as a response to market or state failure to provide access to a service or resource to a specific community or sector, or as a response by a community or sector to opportunistic behaviour by IOFs. In North America, this perspective was advocated and maintained by economists like Nourse, who argued that co-operatives acted as a “competitive yardstick” by which the activities and performance of IOFs could be assessed. Nourse believed that if markets became more competitive as a result of co-operative activity, their role was fulfilled and they could cease to exist (Torgerson *et al*, 1998). Similarly, “life-cycle” theories (LeVay, 1983; Helmberger, 1966; Staatz, 1987; Cook 1995) affirm the notion that co-operatives are either a temporary and/or transitional organization formed as a defensive response to market/state failure. Describing this perspective, Bager states, “If markets need co-operatives they appear, and if markets are restored they fade away, though perhaps with some time-lag” (1996, p. 36).

Other contributions from the field of economics have indicated that co-operatives can form in circumstances not linked to market or state failure. Helmberger and Hoos (1962) argued that the behaviour of co-operatives, like IOFs, can be understood in terms of utility optimization, where the co-operative seeks to optimize the utility of its members

and the IOF the utility of its owners. What is disconcerting about this portrayal is that for the co-operative form to be considered a viable organizational type, it has to be legitimated by illustrating its similarity to the IOF.

The disciplinary approach of Helmerger and Hoos, like the work of Emelianoff and Nourse before them, offers a limited understanding of the complex processes that are involved when individuals decide to form a co-operative. Evers (1992) is critical of the limited perspective that economic theories have in terms of rationalizing co-operatives and other third sector organizations. He states, “that they [economic theories] leave aside a vast world of “non-consumerist” and non-instrumentalist motives and rationales to be found in the social and political environment of non-profits” (1992, p. 7). Evers identifies “socializing, mutual recognition, different types of local, cultural or class solidarities, the social commitment and concern of citizens” as some of the motives that lead groups to form co-operative and/or non-profit organizations (1992, p. 7). These points are reflected in Lambert’s suggestion that the co-operative “is intended to serve both its members and the community as a whole” (1963, p. 231; as cited in Bager, 1996, p. 41).

Accordingly, social scientists and historians reposition the argument that co-operatives are responses to market or state failures, and link the formation of co-operative organizations to the activities of social movements. Develtere (1992) argues that the history of modern co-operatives is intertwined with the activities of social movements; Bager (1996) argues that social movements play an important role in the formative development of co-operative organizations. He states, “co-operatives are often born in the midst of broader social movements, e.g. the farmers’ and workers’ movements at the turn of the century and the more recent ecological movement” (1996, p. 43-4). Bager challenges the rationalist perspective of neo-classical economic theory and argues:

One may, ... move farther and suggest that farmers under the influence of social, ideological and political factors, may form cooperatives even in situations with zero or negative economic advantages, or simply see it as the right thing to do based on their shared values and ideas, thus acting on the basis of legitimacy rather than efficiency. (Bager, 1996, p. 40)

The idea that co-operatives form not only for economic but also social or ideological reasons, supports the construction of a co-operative identity that realizes the contributions and potential of the co-operative form to create progressive social change. Coleman (2004) contributes to this understanding. Drawing on the history of co-operatives and

social movements, he states, “A reading of the histories of co-operatives in many fields suggests that these organizations were often assertions of autonomy” (2004, p. 13).

Starr and Adams (2003) indicate how autonomous, local movements have developed as one approach to ensure community identity and to address the concerns of individuals negatively affected by market or state pressures associated with globalization. They state, “autonomous movements assert that communities can find the solutions to their problems within their own cultural traditions and collective talents” (2003, p. 29). Thus, the goals of social movement members are often congruent with the “helping ourselves” logic of co-operative organizations. Accordingly, Starr and Adams’ analysis of autonomous movements indicates that co-operatives have been used as a tool in local production movements like Community Supported Agriculture (CSA), and in local political movements like the *Zapatista* movement in Mexico and the MST movement (*Movimento dos Trabalhadores Rurais Sem Terra*) in Brazil.

Since individuals form co-operatives voluntarily and participate in the activities of the organization on a voluntary basis, co-operatives are an accessible and appropriate tool for social movements. Individuals belonging to social movements may choose to form co-operatives because they enable their members to realize what Macpherson describes as “developmental liberty” which is the “ability to form and follow one’s own conscious purposes” (1973, p. 117). This is because co-operatives are able to extend the rights to use, benefit, and control a resource to individuals that might not otherwise have such rights. It is this capacity of the co-operative to promote “developmental liberty”, emboldening members in their economic, social and political lives, that suggests that co-operatives are mechanisms for progressive change – a dis-identification with the dominant organizational forms and logics of society. Co-operatives enable “developmental liberty” by extending the property rights to a resource to their members, what Macpherson characterizes as “counter-extractive liberty” (i.e., not excluding the rights of members to a resource).

In this way, co-op members realize the benefits of the co-operative form on an individual basis vis-à-vis their identification with a mutual interest or common bond. Fairbairn (2004, p. 40) puts this succinctly:

Co-operatives are autonomous institutions created and maintained by individual choice. They have no automatic or guaranteed existence, but rather sustain themselves in a competitive environment where they do not survive unless people support them. In other words, they are not merely about cohesion, but also adhesion [identification], the conscious act of associating oneself with a mutual identity.

Fairbairn's comments point to an important issue, namely that co-operatives can form and sustain themselves under normal market conditions; this idea can become skewed by thinking of co-operatives strictly as a product of social movements responding to market/state failure. The value of the social movements perspective is that it highlights the social or the association side of the co-operative; the shared identities and relationships of trust that characterize the social or association side of the co-operative acts an organizational advantage for co-operatives (Bager 1996). It is this identification with a common cognitive model that enables co-operatives and their members to come together to coordinate their activities and achieve their mutually shared goals and objectives.

With time the ability of co-operatives to remain relevant to the needs of their members can diminish as the organization is exposed to competing endogenous and exogenous pressures. For co-operatives, organizational survival is dependent on the ability of the organization and its membership to identify with common goals and objectives. If the goals and objectives of one group in the co-op should shift in a way that is incongruent with the cognitive model of another group, then the capacity of the organization to secure its coordination is put at risk and the co-operative may fail. These shifts in identification result from isomorphic pressures that act on the cognitive models of members and management. In the following chapter, these shifts in identification will be discussed and analyzed using the conceptual framework developed in this chapter.

### **3.4. Concluding remarks**

This chapter began by introducing Pêcheux's framework for analyzing the mode of consent that an individual might hold toward the dominant ideology of society. This chapter extended this framework to a discussion of organizational choice. It indicated that choice of organizational form is related to an individual's identification with a specific

organizational form and logic, which is connected to the dominant ideology and property rights conception of society.

Realizing that the dominant ideology and property rights conception of society inform an individual's cognitive model, the choice of organizational form is biased towards those forms that are congruent with that ideology and framework. Since the organizational logic of co-operatives is incongruent with the dominant ideology and property rights conception of Western society, co-operatives generally operate on the margins of society as a tool for social movements and communities of interest, helping individuals realize their common objectives and to cope with uncertainty resulting from exclusion to a resource or service. The isomorphic pressures flowing from the dominant institutional forms of society do not stop once the choice of organizational form is made; rather these pressures continue to influence and shift the cognitive models of established organizations and their members. In chapter 4, the conceptual framework developed in this chapter will be used to analyze shifts in organizational form, logic and behaviour that occur as a result of isomorphic pressures.



## **Chapter 4: Isomorphic Pressures and IOF Identification**

Although many co-operative organizations continue to dis-identify with the dominant organizational forms and property rights structure of society throughout their existence, Hind (1999; 1997) finds that there is a strong tendency among some large, mature co-operative organizations to more closely identify with and mimic the behaviour of their IOF counterparts. For co-operatives, identification with the IOF – its values, objectives, and rationales – can take many forms and include such behaviours and strategies as adopting new criteria for the selection and recruitment of professional managers, expansion into new markets, mergers with co-operatives, and changes to the organizational form of the co-operative. In some instances this shift in identification is made complete with conversion to an IOF.

This chapter applies the conceptual framework developed in the previous chapter to analyze how co-operatives – their members, directors, employees, and managers – can shift their identification from the organizational logic and form of the co-operative in favour of the dominant organizational logic and form of the IOF. This chapter will indicate how isomorphic pressures both endogenous and exogenous to the co-operative can influence the cognitive models of the various organizational groups, thereby shifting the behaviour and, potentially, the form of the organization.

### **4.1. Isomorphic pressures**

Although isomorphic pressures are prevalent throughout an organization's lifetime, including during the selection and formation of an appropriate organizational form, these pressures are noticeable in mature, highly diversified, or rapidly growing organizations, where they can cause a divergence between the goals of the management and the owners. Changes to the external environment can also create isomorphic pressures that force an organization to adjust its cognitive model in a way that is congruent with other organizations that operate in its sector.

Since co-operatives are not the dominant organizational form in society, and because isomorphic pressures make organizations more similar to one another, co-operatives are especially prone to isomorphic pressures from the dominant organizational form, the IOF. These isomorphic pressures can change the internal dynamics of the co-operative creating an imbalance between the association and enterprise sides of the co-operative, causing the co-op's management and/or its membership to shift their identification with the organization's form and logic. These shifts are the result of the coercive, mimetic, and normative pressures that are exerted on the co-operative.

To review, coercive pressures stem from formal and informal pressures exerted by the dominant institutions in society – the market, state, civic, and non-formal sectors. Mimetic pressures stem from uncertainty and result in organizational imitation. Normative pressures, including professionalization and other processes of socialization, filter out individuals or ideas that might not fit the organizations' culture or requirements. It is important to note that isomorphic pressures can either reinforce or weaken an organization's logic, behaviour and form, depending on whether the pressures are congruent or incongruent with the cognitive model of the organization – its members, employees, managers, and directors. Further, these pressures can either be endogenous or exogenous to the organization.

#### ***4.1.1. Endogenous pressures***

The dual nature of the co-operative – part enterprise, part association – can become a source of tension for co-operatives as one side or the other pushes or pulls the organization away from an identification with the co-op logic and form and toward an identification with the logic and form of the IOF. Generally, endogenous pressures stem from tensions between the enterprise and association side of the co-operative that are exacerbated when the management, board or membership of the organization identify with different goals and objectives. Life-cycle theorists (Cook 1995; LeVay 1983; Helmberger 1966) suggest that as co-operatives mature, the goals of co-operative members and managers can begin to diverge. Craig (1980) suggests that as organizations grow, the increasingly disparate motives of the individual stakeholders can lead to a drift in organizational goals. For instance, this divergence of goals can occur because the co-operative has changed the marketplace in such a way that makes the co-op redundant. As

a result, co-op managers may begin to imitate the organizational behaviour and structure of the IOF in order to stay competitive. Hind's (1999) study of the life cycle of ten co-operative organizations provides evidence that over time co-operatives can become more corporate-oriented.

Differences between the goals and objectives of these groups can result from changes to the external environment (i.e., increasing competition or regulatory changes), or these differences can occur as an organization grows and becomes increasingly complex. Cook (1995) indicates that as "cooperatives become increasingly complex in their organizational structure ... property rights lead to conflicts over residual claims and decision control" (1156). Some of these conflicts – principal-agent problems, free rider problems, and influence cost problems – result from or are exacerbated by normative and coercive pressures that exist among the members, directors, and managers.

Principal-agent problems, free rider problems and influence cost problems are recognized in much of the literature on co-operatives as endemic problems, as they arise from pressures on the property rights structure of the co-operative organization. These problems and their role in shifting the decision-making control and behaviour in the co-operative will be discussed below.

#### *4.1.1.1. Principal-agent problems*

Generally, in organizations the owner(s) hire managers to coordinate the activities of the organization, and to respond to changes and uncertainty in the external environment. These managers are hired for their expertise and specialized knowledge, and the owner(s) enable the managers by delegating some of their decision-making power to them. This sort of relationship is known as an agency relationship. The principal (the owners) hire an agent (the peak coordinator/manager) to carry out a task on his or her (or their) behalf. An agency problem arises when "the principal and the agent have different goals and the principal cannot determine if the agent has behaved appropriately" (Eisenhardt, 1989, p. 61).

In the co-operative, the key parties to the principal-agent relationship are the member-owners (the principal) and management (the agent). However, this relationship is complicated by the presence of the organization's board of directors, which acts as an intermediary between these two groups. As such, the board serves as an agent to the

members, as it is elected/hired by them to make decisions on their behalf and to ensure that management is fulfilling the members' goals. Similarly, the managers are an agent of the board as they are delegated by the co-op's directors to carry out the activities required to fulfill the goals of the membership.

Agency problems commonly arise in mature co-operatives; as Murray (1983) indicates there is a tendency among co-operatives for the goals of the managers and the member-owners to diverge with time. Hind's survey of ten agricultural co-operatives finds that "significant differences between the farmer and manager groups exist, the farmer group aspires more towards farmer-focused goals than do the managers and the managers are more oriented towards the corporate-centred goals" (1999, p. 545). Her results suggest that late stage (mature) co-operatives have the lowest level of goal coherence (congruent identification) between the management and membership of the co-op, whereas data from the earliest stage co-operative shows "relatively little conflict between the manager and farmer groups" (1999, p. 546). In another study, Hind (1997) applied a semantic analysis of the historical annual reports of seven agricultural co-operatives and found that in six of the seven cases there was a positive relationship between age and an increasing corporate focus.

The two features that form the basis of agency problems are information asymmetry and the costliness of acquiring information. In the organization, information asymmetry occurs when management possesses information that the owner(s) or their representatives do not have. Information asymmetry can include the specialized training and knowledge of managers, and knowledge that comes from handling the day-to-day activities of the organization.

Organizations can use organizational slack and cohesion (loyalty) in conjunction with the management control system (see chapter 2) as a way to ensure that management achieves the goals set out by the owner(s). However, organizational slack, cohesion, and the management control system have a cost (potentially limitless) to the organization that at some point makes acquiring more information no longer feasible. Information asymmetry also exists because bounded rationality, as Simon suggests, imposes limits on the ability of individuals to have full knowledge of future or even present events. Therefore, agency problems arise "[b]ecause of incomplete search and monitoring

information devices” (Cook, 1995, p. 1157) that handicaps the ability of governance bodies to effectively cope with information asymmetries that result from either specialized training and knowledge or bounded rationality.

Isomorphic pressures can provoke and/or exacerbate agency problems in co-operatives. An important endogenous pressure that can provoke and/or exacerbate an agency problem is professionalization. One way that professionalization can contribute to agency problems in co-operatives, and especially the tendency of co-operatives to behave more like IOFs, is by hiring managers that have been trained to manage IOFs and not co-operatives. While the specialized skills of professional managers will be required by co-ops as they grow and diversify, the professionalization of management creates information asymmetries between co-op managers and directors, especially as member-directors may not have the expertise or training that would enable them to check management’s decisions. This information asymmetry can increase as directors begin to rely more and more on managers, putting decision-making control into their hands. And, as managers prove themselves to be successful and gain the trust of the directors, there is less incentive to monitor the activities of the management, which can create an opportunity or space for managers to pursue activities that diverge from the goals of the members. Lang (2006) observed that this type of agency problem was present in the Saskatchewan Wheat Pool (SWP) during the 1990s. The case of the SWP will be discussed further in chapter 6.

Agency problems are especially troublesome if the management is not loyal to the co-operative form, which can happen when managers receive little or no training and education about co-operatives. Since education and training about other organizational forms may cause managers to identify more with IOFs or SOEs than with the co-operatives, this can result in a lack of cohesion and coordination between managers and members, as managers attempt to operate the co-op as if it were an IOF or an SOE. According to DiMaggio and Powell, universities, training institutes and professional associations “create a pool of almost interchangeable individuals who occupy similar positions across a range of organizations and possess a similarity of orientation and disposition that may override variations in tradition and control that might otherwise shape organizational behaviour” (1983, p. 152; citing Perrow 1974). For co-operatives,

this is problematic as most graduates of management and economics programs receive very little education on co-operatives. For example, Hill (2000) surveyed 19 first-year economics texts and found that co-operatives were mentioned in only 9 of them, with mention ranging from “1 time; no definition” to “1 page + glossary definition”.

Another way that professionalization can create agency problems in co-ops occurs when changes are made with respect to board representation that permit professional directors to sit on the BOD without having first been elected by the members. While some commentators are in favour of the use of outside directors in large, diversified co-operative organizations, others are less decisive. Staatz (1987) indicates that while member directors may have less expertise in business management, they do provide technical or insider knowledge of the organization; more importantly, if a co-op does decide to introduce outside directors, then membership/ownership control of the organization is diminished. Membership control of the board of directors is critical if the members want to check the influence of management. If the board of directors is no longer accountable to the membership, then “[m]anagement in these large cooperatives may therefore have considerable scope to pursue its own goals” (Staatz, 1987, p. 52).

In summary, principal-agent problems occur in co-operatives when member-owners lack control of their own organization. Agency problems enable management to exact more control over the decision-making of the organization, shifting the behaviour and form of the co-operative. Information asymmetries between management and members can be exacerbated, as organizations and the external environment become increasingly complex. These exogenous and endogenous pressures can legitimate management control of the co-operative, as members believe management’s judgments to be correct. Therefore, as normative pressures like professionalization condition the cognitive models of managers, management increasingly identifies with and is influenced by the IOF logic and form. Moreover, once the principal-agent problem is active, managers can apply coercive pressures on the members-owners and directors to achieve the goals of the managers.

#### *4.1.1.2. Free-rider problems*

Free-rider problems occur in co-operatives when members act in an individualistic way rather than in common. In co-operatives this problem can arise from the property rights

structure of the organization. As Alchian and Demsetz indicate, “[p]ersons who own communal rights will tend to exercise these rights in ways that ignore the full consequences of their actions” (1973, p. 19). In this way, the common property rights structure of co-operatives makes these organizations susceptible to over-use and/or neglect from members and opportunistic behaviour from non-members. This is problematic as it can deplete the common resource or capital of the co-op and further exacerbate problems on the association side of the organization.

The co-operative can address the free-rider problem by building member loyalty and cohesion, or by increasing monitoring and enforcement (which might potentially expose the organization to influence cost activities). Alternatively, co-operatives may address the free-rider problem by more clearly defining the property rights structure of the organization, resulting in the attenuation of common rights and the creation of private rights to access and use the resource.

One period during which a free-rider problem can occur is during the formation of a co-operative, since it is in the interest of each member to free-ride on the investment of others. However, if all members were to shirk on contributing their portion of the investment capital, the required capital would not be raised and the co-operative would not be formed. This type of free-rider problem is an on-going issue for co-operatives. As Knoeber and Baumer indicate, “because patrons share in the return on cooperative equity capital whether or not they invest in the cooperative... [as a result] too little cooperative equity capital will be provided” (1983, p. 31). To address this problem, co-operatives retain patronage refunds in the form of member equity in the co-op.

Another type of free-rider problem occurs when member co-operatives in a federated structure begin to rely on the retained equity of all the member co-operatives to back their own capital investments. This is what occurred in the 1970s and 1980s when member co-operatives of Federated Co-operatives Limited (FCL) began to imitate their IOF competitors and invest in new retail formats (i.e., shopping malls). A former FCL board member told Fairbairn:

The biggest problem was that ... the retailers were expanding and they were using their shares in Federated as collateral for their loans. As high interest rates hit at that time, a lot of those loans became very dicey as to whether they could be repaid, and that was the problem. Federated had so many liens – liens

against the shares – had they all been called, or gone bad, the entire Co-op Retailing System would have collapsed. (2003, p. 29)

One commonly suggested response to a free-rider problem is for the co-op to convert the retained equity to shares that are allocated to the individual members. Often, this process results in the co-operative converting to an IOF. However, FCL responded to its free-rider problem differently. Rather than converting its retained member equity to individual shares, it decided to assist some of its member retails. Since it could not afford to assist all of the retails, those that did receive support had to follow the solutions prescribed by FCL. As a result, FCL became a more centralized organization as local retails sacrificed decision-making control and autonomy for financial support. Therefore, as free-rider problems weaken the association side of the organization, they have the potential to increase management's control of the organization.

#### *4.1.1.3. Influence cost problems*

Influence cost problems generally arise when there is a divergence of organizational goals among a heterogeneous membership. According to Cook,

Influence activities arise in organizations when organizational decisions affect the distribution of wealth or other benefits among members or constituent groups of the organization and when in pursuit of their selfish interests, the affected individuals or groups attempt to influence the decision to their benefit. (1995, p. 1157)

In short, influence costs arise when members use influence activities to coerce management to focus the organization's resources on activities that benefit them personally.

The common property rights structure of the co-operative makes these organizations especially susceptible to influence costs activities, as members attempt to maximize their use and benefit of the resources and services of the co-op. Influence activities that members may use to coerce management include threatening to pull out significant equity capital from the co-op and fraternizing with directors, managers, and employees. These influence activities cause problems as they restrict the ability of other members to access and use the resources of the co-operative. In this way, influence costs activities are a contributing factor in many co-op failures. For instance, the failure of Tri-Valley Growers (TVG) co-operative was in part attributable to the influence of tomato grower members that directed the resources of the co-operative away from the more



economically sound operations of the fruit grower members. Sexton and Hariyoga (2004) indicate that TVG tomato growers used their position as multi-cannery growers to pressure the co-op for better contracts. They state:

TVG lacked strong membership contracts that would have required delivery and instead was forced to offer tomato growers special deals – cash contracts, accelerated payments and low rates of equity retention – to retain the patronage of tomato growers in the 1990s. (Sexton and Hariyoga, 2004, p. 22)

TVG management's reluctance to exit the tomato side of the co-operative enabled the tomato grower members to exploit their position, thereby depriving the fruit growers of their retained earnings in the co-op and eventually causing the organization to fail.

One means that co-operatives use to deal with influence cost activities is to redefine the property rights structure of the co-op. For example, the co-op may convert to a new generation co-operative (NGC) structure that allocates delivery rights in terms of a member's equity contribution. In such instances, the common property rights of the co-operative are converted either in part (i.e., conversion to an NGC) or wholly (i.e., conversion to an IOF) to a more private form that excludes others from access to or use of the resource that was once common to all members of the organization.

Influence cost problems can also occur as a result of a principal-agent problem. In such cases, management may use the resources of the organization to push for policies or strategies that benefit them. For instance, there are examples of co-op managers and directors using coercive techniques like media presentations, press releases, and information sessions to push their own agendas onto the membership. These sorts of influence activities seem to have been present in at least two co-op conversions – North Dakota Pasta Growers and the SWP. One reason that management may favour an IOF conversion is that generally IOF managers receive higher remuneration than their co-op counterparts. Lang (2006, p. 134) indicates that upon retirement from the SWP in 1999, CEO Don Loewen earned nearly double the salary he had earned prior to the organization's conversion to a publicly traded co-operative in 1996.

The horizon problem is a special type of influence cost problem that occurs when older members or infrequent users of a co-op are averse to investing in assets or activities for which they will not realize any benefit. The problem occurs because residual rights to the co-operative are not easily transferable since there is no market mechanism for

existing members to trade their equity-capital in the organization with potential members. In addition, the withdrawal of large sums of retained member equity (co-operative equity) from the co-operative makes it increasingly difficult for the organization to acquire financing to make capital investments. According to Cook, the horizon problem creates pressures on co-op directors and management to “increase the proportion of the co-operative’s cash flow devoted to current payments to members relative to investment, and ... accelerate equity redemptions at the expense of retained earnings” (1995, p. 1157).

To deal with the horizon problem, co-op management may consider looking for external sources for capital infusions and/or converting the common property rights of the membership to private rights. The management and board of the co-operative may decide to convert the membership’s common right to private property rights as the horizon problem “is not present in IOFs because the trading of shares allows the expected future earnings of long-term investments to be reflected in the value of the company” (Fulton, 2001, p. 19). This problem had a critical influence on the decision by the SWP to convert to a publicly traded co-operative in 1996.

In summary, influence cost problems occur in co-operatives as members or the members, board and management use the common resources of the co-operative to pursue their individual goals and objectives. Similarly, in the case of the horizon problem, as members seek to optimize their utility, they are averse to making new investments in the co-operative and may seek to withdraw their share of the retained equity of the co-operative to pursue other interests. Co-op managers and boards have typically responded to these problems by imitating the private property rights structure of the IOF, converting the organization to an IOF or an NGC.

Isomorphic pressures endogenous to co-operatives create and are created by influence cost problems, free-rider problems and principal-agent problems. These internal problems can make the co-operative more susceptible to coercive and normative pressures by management to shift the behaviour and/or structure of the organization toward an IOF. Exogenous pressures can also influence the association side and enterprise side of the co-operative, shifting the organization toward an identification with the IOF logic and form. The following section describes how exogenous pressures can lead co-operatives to mimic the behaviour of their IOF counterparts.

#### ***4.1.2. Exogenous pressures***

Isomorphic pressures from the state and market can influence the decision-making of co-operative organizations; in addition to those influences, isomorphic pressures from other co-operatives can also influence the behaviour of individual co-ops. Since the market is the dominant source of exogenous pressures, “[c]o-operative movements ... show a tendency to become absorbed by the market” (Develtere, 1992, p. 32). Torgerson *et al.* (1998) share this perspective and indicate that co-operative organizations are especially susceptible to the pressures of the marketplace. Torgerson *et al.* state:

The reality of the marketplace tends to drive participation and service in opposite directions. Participation and democracy take time. The markets’ demand for efficiency is ever present and ever felt. This tension becomes manifest in organizational form and in organizational logic. (1998, p. 9)

Exogenous pressures from the marketplace can exacerbate tensions between the association side of the co-operative and the enterprise side of the organization. As Torgerson *et al.* indicate, the need for efficiency makes it necessary for the co-operative to put more decision-making control in the hands of management, creating a potential agency problem between members and management and directors. These pressures can also be problematic for co-operatives with a high degree of membership heterogeneity as they can create a divergence of goals among the membership, leading to various types of influence cost problems. Therefore, as problems arise on the association side of the organization, management may begin to look more to the external environment for possible strategies to cope with these internal problems. Mimetic isomorphism is one strategy that co-operatives have used to cope with these problems. The state can also facilitate this selection process by regulating what adaptation the co-op can and cannot undertake. Some of the ways that the state and marketplace can cause co-operatives to identify with and imitate IOFs will be discussed below.

##### ***4.1.2.1. Market influence on co-operatives: Mimetic pressures***

According to DiMaggio and Powell (1983), uncertainty is the primary reason that organizations, including co-operatives, adopt mimetic behaviour. Organizations imitate the behaviour of other organizations to reduce the costs of coping with uncertainty or what Loasby refers to as partial ignorance, namely by economizing their decision-making time and effort. In effect, imitation is a means to routinize decision-making by reducing

the time and effort it would take for decision-makers to determine and sort through all the possible choices that are available to them and the costs and benefits associated with those choices. Interestingly, routine behaviours are most useful in stable environments, which one might assume is antithetical to the circumstances in which an organization would choose to adopt a strategy of mimetic behaviour.

According to Vilstrup *et al.*, “Dynamic changes in the economic environment often generate the need for significant changes in cooperative structure” (1989, p. 360). In co-operatives, the board of directors and management are charged with responding to changes in the economic environment. Their ability to respond to these changes is affected by how strong of an identification they have with the organization and its cognitive model. Although Simon argues that organizational identification is necessary to securely coordinate the activities of organizational members, he also cautions against over-identification. He states, “[over-identification] also causes excessive influence of existing organizational practices and identifications upon decisions that should be adapting to a changing world” (2000, p. 753). Therefore, it is important that co-op managers and directors be able to adjust their cognitive models to adapt to the changing environment.

However, there is often a lag between the changes that management and directors are willing to make to adapt the organization structurally and behaviourally with the changes that the membership is willing to accept. This lag indicates the time it takes for co-op members to adjust their cognitive models to match the adjustments made by the co-op’s managers and directors. In some instances, this lag is a product of information asymmetries between the members and the directors and managers of the co-op; however, it can also result from cognitive dissonance. According to Akerlof and Dickens, cognitive dissonance suggests that since “beliefs are persistent once adopted.... [individuals or organizations] tend to avoid or resist new information that contradicts already established beliefs” (1982, p. 316). Since cognitive dissonance can account for a variety of behaviours that persist over time, it provides some insight into why co-op members are often critical of organizational change, specifically change that challenges some deeply held belief.

Some important changes to the external environment that co-operatives are responding to include increasing competition from large, multinational firms and advances in technology that are reorganizing society and the marketplace. Imitating organizational structures and strategies is one behaviour that a co-operative can use to adapt to changes in the external environment. According to DiMaggio and Powell (1983), organizations can benefit from mimetic behaviour like imitating; for instance, imitation may provide a viable solution at less cost (Cyert and March, 1963), while imperfect imitation can lead to innovations (Alchian, 1950). For co-operatives, however, there are few organizational templates that they can adopt that do not challenge the property rights structure of the co-op, or the cognitive models and identity of the members.

One template that some co-operatives have adopted is that of the large, multinational firm (Goddard 2002). Adopting this organizational template enables co-operatives to realize economies of size that facilitate new technology acquisitions, quantity discounts in transportation and advertising, while spreading the fixed costs associated with research, management, and training; it can also provide co-operatives with more political and economic influence and legitimacy (Vilstrup *et al.*, 1989, p. 364). This template has been especially prominent in the agriculture sector, and often a source of criticism as it puts heavy strains on the association side of the organization, especially as it reinforces hierarchal relationships by limiting the opportunity for members to participate in the co-op. This template can also weaken membership control as external partners or financing arrangements further attenuate the property rights of the members and diminish member commitment to the organization.

#### *4.1.2.2. State influence on co-operatives: Coercive pressures*

Coercive pressures from the state are also a source of isomorphic pressure that can influence co-operatives to behave more like their IOF counterparts. Changes to regulatory and legal frameworks can make it difficult for co-operatives to remain competitive with their IOF counterparts; these changes also often facilitate the transition of co-operatives to a more IOF-like structure. As Ingram and Simons indicate, “The state may affect the legitimacy of particular organizational forms via its influence over the definition of organizational propriety” (2000, p. 28). For example, Dobbin and Sutton (1998) observe that changes to employment equity legislation requiring organizations to institute certain

policies and procedures in order to comply with the behavioural and structural changes stipulated by the legislation, resulted in organizations creating specialized departments or offices that were accountable for ensuring compliance with this legislation. Interestingly, Dobbin and Sutton noted that “[managers] develop efficiency rationales for the offices they establish in response to the law” (1998, p. 471), and that these offices may persist although the legal framework has changed or expired.

Deregulation is one means that the state can use to influence the predominance of an organizational form across an industry or sector. Fulton (1995) and Bager (1996) argue that government deregulation in the agricultural sector is problematic for both co-operatives and their farmer members. Fulton indicates that deregulation can result in “the loss of political power, ... [and] the loss of a protected environment in which co-operatives could earn profits to fund noncommercial member activities and services”, and that these negative effects on the co-op sector may also limit institutional support for new co-op development (1995, p. 1151). For example, Lang (2006) indicates that deregulation of the grain handling system in Western Canada enabled new competitors to enter the grain market taking away market share from established co-operatives like the Saskatchewan Wheat Pool.

Bager (1996) suggests that the conversion issue has become more salient for co-operative members, staff and boards as deregulation and privatization become more prominent in industrialized countries. He argues that as debates about deregulation and privatization became more intense, the role of the public sector was called into question. He states that “the limited company form expanded throughout the economies and was increasingly the conceptual point of departure in business school and among managers, perceived as the appropriate and efficient contemporary form of business organization” (Bager, 1996, p. 71).

Changes to the law regulating co-operatives can enable mimetic isomorphism by facilitating the transition of co-operatives to a more IOF-like structure, or creating a new co-op form that more closely resembles the IOF form. Interestingly, these regulatory changes are often made in consultation with representatives from the co-op sector; often, they are a means to mitigate the effects of increasing competition that occur as a result of

deregulation. Milholland and Brady highlight an example of this sort of regulatory change happening in the United States. They indicate:

The concern that cooperatives require capital to compete on a grand scale that they cannot gain through internal patronage led Wyoming and Minnesota to pass statutes in 2001 and 2003 that allow nonmembers to invest in cooperatives and receive returns and voting rights proportional to their levels of investment. Many see these statutes, as well as similar ones proposed in Wisconsin and North Dakota, as fantastic fix-its to enable the cooperative form to survive. (Milholland and Brady, 2005, p. 17.4)

As Milholland and Brady argue, these changes do little to preserve the co-operative form, especially, those elements of the co-operative form like member-ownership and democratic control that provide members with benefits – equitable pay price, investment in local business, and non-outsourced production – that they do not receive in a consolidated marketplace (2005, p. 17.4).

In other cases, the introduction of a new legal framework, such as Saskatchewan's *New Generation Co-operatives Act* (2000), provides producers with another option for organizing a member-owned co-operative. Producers have used new generation co-ops (NGCs) as a means to do value-added processing of their bulk commodities. Fulton (2001) argues that the decision by producers to become involved in value-added production vis-à-vis a NGC results from an awareness of the changes on-going in the agriculture sector – specialization, consolidation, vertical-integration – and a belief that the traditional co-operative form was not capable of responding quickly enough to these changes.

Fulton (2001) and Cook (1995) indicate that the NGC provides agricultural producers with a co-operative structure that addresses many of the property rights problems (i.e., free rider and horizon problems) that have forced other co-operatives to exit or convert to an IOF. Some of these changes include: the allocation of delivery rights based on equity investment, the transferability of delivery rights (closed membership), and in some cases investment by non-members (via non-voting, common shares). As such, the property rights structure of the NGC shares many of the characteristics of the IOF structure. However, what the NGC structure does differently than the IOF structure is that it ensures that member-users own and control the organization, since delivery shares can only be transferred to other producers. In addition, NGC members, like

traditional co-op members, receive an economic benefit based on patronage and participate in the democratic proceedings of the organization on the basis of one member, one vote.

While the property rights structure of the NGC has been a useful tool for the agricultural producers wanting to participate in the profits from a value-added enterprise (Fulton 2001), NGCs are also more susceptible to IOF conversion. Members may be motivated by the opportunity to realize economic gain via share conversion especially if there are few producers that want to purchase member shares. Managers may be motivated to attenuate more decision-making control from the members and expand the capital-equity available to the organization for new business ventures. Some notable NGC to IOF conversions include Minnesota Corn Processors and North Dakota Pasta Growers.

#### **4.2. Shifting identification: Behaviour, strategies and conversion**

Endogenous pressures from the association and enterprise sides of the co-operative working in conjunction with exogenous pressures from the market and state can shift the cognitive models of co-op members, managers and directors toward an identification with the logic and form of the IOF. These shifts may result in behavioural changes such as co-operatives adopting IOF strategies, or in structural-behavioural changes as exemplified by conversion to an IOF. This section will analyze how isomorphic pressures can shift the behaviour and structure of co-operatives towards an identification with the logic and structure of the IOF. Two short cases will be discussed: Agway and North Dakota Pasta Growers.

Behavioural changes such as the adoption of a new strategic approach for the co-operative are a product of heuristic filtering by co-operative decision-makers, particularly, managers, employees and directors. If the adoption is successful, this can significantly alter the cognitive models of the managers, employees, and directors, which has the potential to cause the goals of the management to diverge from those of the membership. Even if the adoption of a new strategic approach is accepted by the membership, the outcomes of the strategic approach (i.e., expansion vis-à-vis external growth – merger, acquisition, consolidation) can lead to a further attenuation of the members' property rights, resulting in declining membership participation and



commitment to the organization. This lack of coordination and commitment among co-op members and managers has been a contributing factor in the failure of many of the large American agricultural co-operatives.

Structural-behavioural changes, like IOF-conversion, not only indicate a shift in the cognitive model of the members and management but also a shift in the property-rights structure of the organization. In the case of a conversion to an IOF, members sell their equity in the common property of the co-operative for an economic benefit. The organization seeks conversion in order to acquire equity capital through the sale of shares, thereby enabling it to make new capital investments. The members' motivation is purely individualistic, as they seek to acquire a return on their equity investment in the co-operative. The decision to convert to an IOF means members' rights to access the services of the organization are no different than any other potential customer or client.

#### ***4.2.1. Agway***

Agway was founded in 1964 with the mergers of the Grange League Federation, Eastern States Farmers' Exchange, and the Pennsylvania Farm Bureau Co-operative (Fairbairn, 2003, p. 2). From its beginning, the cognitive model of the organization identified with a logic of growth and diversification as a means to realize economies of scale that would benefit its producer-members. Later, this cognitive model was adjusted somewhat as the co-operative entered new business lines; in some cases the decision was justified on the basis of helping regional producers (i.e., the 1980 purchase of H.P Hood, a fluid dairy company). Over time Agway defined itself more and more by its size and likeness to the large, multinational agricultural corporations – Cargill, Archer Daniels Midland, and ConAgra – that dominated the American marketplace. Normative and mimetic pressures from the marketplace legitimated this mindset; as Anderson and Henahan indicate, “Agway being on the Fortune 100 list of U.S. companies was often mentioned in publications and meetings” (2002, p. 2). As these normative and mimetic pressures influenced Agway's cognitive model, Agway managers showed little hesitation in entering new lines of business (Fairbairn 2003; Anderson and Henahan 2002). At its peak, Agway operated five business divisions: the Agway Agriculture Group, Country Products Group, Agway Energy Products LLC, Agway Insurance Company, and Telmark Lease Financing.

Eventually, Agway's large size and diversified structure alienated the organization from many of its producer members, since Agway members had a little motivation to participate in the co-op's decision-making. Anderson and Henehan (2002) indicate that the low equity investment that members made to the co-operative (\$25 membership share), and the use of tax paid retained earnings rather than member equity meant that Agway members had little equity at risk in the organization, and effectively little incentive to be active members in the co-operative whether as decision-makers or as users. These factors suggest that the circumstances at Agway were consistent with the development of an agency problem. As Fulton and Giannakas (2001) demonstrate, when co-ops are perceived to be an effective agent for their members, individuals are willing to show high commitment to the organization. However, they argue that if the co-op behaves in a way that changes the utility function of the members (i.e., chooses to maximize profits, or is unable to maintain production efficiency), then member commitment is likely to be low. Therefore, as Agway was unable to effectively and efficiently provide the services and price that its members wanted, the membership had very little incentive to remain committed to the organization, whether as users or decision-makers in the co-operative. As Fairbairn indicates many members were going to discount stores like Wal-Mart to make their purchases, while large commercial farm members were receiving products direct from the mill or the warehouse and only using Agway retail outlets do to their ordering (2003, p. 4).

In 2002, the decision was made to retain four successful business areas – Animal Feed and Nutrition, Energy Products, Fresh Produce, and Agricultural Technologies – and divest itself of four others – Telmark, Agway Insurance, Agronomy, and Seedway (Fairbairn, 2003, p. 14-15). Interestingly, Telmark, Agway Energy and Agway Insurance had been the co-op's top money earners in 2001. Later that year, Agway declared bankruptcy.

The desire of Agway managers to imitate the large diversified agri-businesses that the co-op competed with impeded the ability of the co-operative to divest itself of some its businesses while it still had sufficient equity to finance some core business lines. As Fairbairn indicates, in 2002, Agway shareholder equity totaled \$64 million down \$199 from 1999 (2003, p. 15). Agway's over-identification with size and diversification

required it to use shareholder equity to make interest payments and subsidize its money losing businesses. As Fairbairn indicates, long-term debt for the company as whole was about \$900 million in 2000 and 2001; to cope with its high debt Agway had to “issue up to \$50 million in new debentures annually in this period and pay annual interest costs in excess of \$33 million on the debentures outstanding” (2003, p. 16). Had Agway decided not to be all things to everyone, it might have survived, albeit in a much different form.

#### ***4.2.2. North Dakota Pasta Growers***

The conversion of North Dakota Pasta Growers to an IOF illustrates how normative, coercive, and mimetic pressures from endogenous and exogenous sources can shift the cognitive model of a co-operative towards an identification with the IOF form.

In May 2002, the members of North Dakota Pasta Growers voted in favour of converting their vertically integrated NGC into an IOF. In 2001, as a co-operative, Dakota Growers sales had climbed 13 percent to more than \$112 million; however, Baker indicates that a poor quality durum harvest that year meant that “the enterprise had been burdened by requirements that each member sell a certain amount of grain to the co-op” (2002, p. 8). Therefore, the members had some motivation to vote in favour of conversion in order to free themselves from their delivery obligations. Moreover, as the median age of the farmer-members had likely increased since the co-operative formed in 1994, there was a growing desire to trade delivery rights to the NGC, and as the farming population in North Dakota continued to decline so did the opportunity to trade those delivery rights. In addition, Dakota Growers management was interested in acquiring new capital to make additional investments in the organization. IOF conversion was one of the few viable opportunities for aging members to recover or earn a profit from their initial investment.

As supply from non-member producers increased, exceeding member supply in 2002, problems were created for the organization. An article in the USDA publication, *Rural Co-operatives*, indicated that the co-op’s dependency on non-member supply was creating a legitimacy issue for the co-operative, suggesting that normative and potentially coercive pressures from the state might have contributed to the members’ decision to vote in favour of conversion. The article states:

Some observers say the [conversion] vote reflected the reality that the member-farmers who own the business were no longer supplying the majority of durum to the plant, raising legal and tax questions about whether it could continue to operate as a co-operative. (“Dakota Pasta co-op”, 2002, p. 33)

Although legal interventions by the state were probably not forthcoming, the inability of the membership to supply the co-operative may have provoked normative and coercive pressures from Dakota Growers’ customers concerned with supply and quality issues. More importantly, it suggests that increasingly Dakota Growers’ members viewed the organization as an investment rather than a viable marketing option for their durum.

Conversion also had benefits for the organization, since the IOF structure permitted management to source durum from other producers. Moreover, conversion also provided the organization with the ability to obtain new capital through the sale of stock to the public. As Dakota Growers chairman, Jack Dalrymple, stated in a press release following the conversion: “Under the corporate business structure, we are now in a position to attract new investors and additional capital” (Press Release, May 23, 2002).

These statements suggest that uncertainty regarding the ability of the co-operative to acquire additional investment capital, the ability of members to meet their delivery obligations, the ability of members to sell their shares, and the potential for regulatory interventions led management and directors to adopt a strategy of mimetic isomorphism – conversion to an IOF structure – as a means to reduce uncertainty. For the producer-members of Dakota Growers, the loss of a guaranteed buyer for their durum, and the loss of economic gains as a result of being a “price maker” in a vertically integrated product chain may be considered a substantial loss to the membership. Baker’s (2002) article does suggest that the management presented a one-sided, pro-conversion message to members in meetings preceding the vote. Further, Baker indicates that Dalrymple’s position as lieutenant governor of North Dakota and another board member’s position as chair of the state House Agriculture Committee acted as coercive pressures that may have effectively quashed any notions that NGC supporters might have had of launching an anti-conversion campaign.

#### **4.3. Concluding remarks**

While in many instances isomorphic pressures (either endogenous or exogenous) can reinforce the cognitive model and property rights structure of the co-operative, there is a

tendency for isomorphic pressures to shift the cognitive model and property rights structure of the organization. This can lead to internal problems (free riding, horizon and control problems, to name a few); it can also influence co-op members and decision-makers, shifting their cognitive models towards an identification with the logic and property-rights structure of the IOF. In some instances, this identification with the IOF ends with the adoption of a new strategy or organizational goal; in other instances, this identification results in the co-operative's conversion to an IOF.

## **Chapter 5: The Development of the Consumer Co-operative Movement in Saskatchewan**

Consumer co-operation on the Canadian prairies and in Saskatchewan started through informal associations of individuals engaged in pooled or co-operative purchasing. Many of these individuals were inspired by the Rochdale principles of co-operation, while others were influenced by producer movements creating a class-consciousness that inspired the formation of the large grain pools. Consumer co-operation grew from small groups of occasional users to registered consumer co-operatives, forming the beginnings of a consumer co-operative movement. However, as this chapter will highlight, at no point in the movement's early history was the choice of organizational form a given; even among co-operators, there were competing visions of consumer co-operation.

This chapter analyses the development of two consumer co-operatives in the province of Saskatchewan, and illustrates that co-operative formation is the result of a dis-identification with the dominant organizational forms of society. The first case analyses the formation of the Saskatchewan Co-operative Wholesale Society (SCWS). The case describes the efforts of co-operators and local co-operative retailers to establish a co-operatively-owned wholesale organization. This case indicates that in developing their own co-operative wholesale, the local co-operatives not only dis-identified with the individualistic and exclusionary rationales of their IOF competitors, but also that they dis-identified with the prevailing notion that co-operation should be restricted by class or occupation, thereby extending and opening consumer co-op membership to the wider community.

The second case describes the formation of the Consumers' Co-operative Refineries Limited (CCRL). This case intersects with the former example both historically and theoretically, and highlights how isomorphic pressures from the external environment can provoke a dis-identification with the logic and rationales of the state and market sectors that leads individuals to work together to develop a co-operative innovation. It is important to note that much of the information for both of the cases is

sourced from Fairbairn's (1989) *Building a Dream: The Co-operative Retailing System in Western Canada, 1928-1988* and Wright's (1956) *Prairie Progress: Consumer Co-operation in Saskatchewan*.

### **5.1. The Saskatchewan Co-operative Wholesale Society**

In Western Canada the consumer co-operative sector developed from small groups of individuals working together to make bulk purchases of select commodities – oil, coal, twine, and apples, to name a few. English settlers familiar with the Rochdale principles of co-operation were often involved in establishing the first retail co-operatives. These early settlers identified with the co-operative form as a way to empower consumers by providing them with an open and democratic enterprise to meet their needs for quality goods and services, while sidestepping the high prices and unfair retailing practices of private merchants.

The case of the SCWS shows that early consumer co-operators not only dis-identified with the logic and property right structure of the IOF but also the prevailing logic of Saskatchewan's co-op sector, which threatened to exclude non-agricultural producers from the consumer co-operative movement. This example indicates that dis-identification is a reflexive process that is not merely a rejection of the logic and form of the IOF and the SOE but also that is critical of the various applications of and variations on the logic and form of the co-operative organization.

In 1913, the Saskatchewan government passed its first co-operative legislation enabling groups to formally incorporate their informal organizations – buying clubs and purchasing associations – as consumer co-operatives. According to Fairbairn, by the end of 1914 there were 102 co-operative associations (most of which were co-operative purchasing societies) reporting to the government (1989, p. 16). While the number of co-op incorporations continued to grow over the next five years, the movement struggled in its attempts to establish and coordinate co-operative wholesaling activities. The establishment of a co-operative wholesaling organization was considered to be a critical step to coordinate, educate, support and service the needs of local retailers. Without such a structure local retailers would continue to be threatened by oligopolistic/monopolistic behaviour by IOFs.

It was around that time that the large grain pool co-operatives that were developing in Saskatchewan, Manitoba, and Alberta also began to develop their own trading departments to wholesale products that could be sold to producers at local elevators. While these producer co-operatives did sell consumer products to their members, the basis for these organizations was the handling and marketing of producer grain, not the provision of consumer goods. As a result, while the agrarian producer movement advocated and supported co-operative development, its direct involvement in the sale of commercial goods conflicted with and perhaps stalled the formation of a provincial co-operative wholesale organization that could act as a focal point for the consumer co-operative movement.

The formation of the SCWS was marked by confrontation between the interests of the producer co-operatives and those of the fledgling consumer co-operatives and their members. Notions of class solidarity and empowerment influenced the formation of producer co-operatives on the prairies, particularly the Saskatchewan Wheat Pool, which was formed only after a majority of Saskatchewan grain producers signed contracts agreeing to pool and market their production through the co-operative. The notions of class solidarity and producer empowerment that directed the early formation of the Saskatchewan Grain Growers Association (SGGA) (which in 1926 merged with United Farmers of Canada, Saskatchewan Section) created problems for the organization of a federated co-operative system. As the SGGA, and later the United Farmers of Canada (UFC), were more interested in marketing select consumer products to their producer members using their trading department arm, than supporting the development of local consumer co-operatives that provided a wide-range of products to consumer-members regardless of whether or not they were agricultural producers.

The sale of select goods through trading departments was aimed at meeting the needs of grain producers for products like oil, coal, binder twine that could be purchased in bulk and sold in large quantities at affordable prices. However, Macpherson indicates, “as they [the trading departments] had prospered, they had tended to compete with local [co-op] stores trying to meet the same needs and prosper primarily on the same lines” (1979, p. 92). For example, the Juniata Co-operative Association Limited (the first retail co-operative to incorporate under the province’s co-op legislation) was, after a successful



start, forced to close as a result of competition (more accurately, coercion) from the Trading Department of the SGGGA. In an open letter published in *The Grain Growers Guide* (10 April 1916), cited in Wright (1956), the president of Juniata Co-op, D. Suter, explained that with the arrival of the Trading Department of the SGGGA to Juniata, the Co-op's wholesalers returned their grocery orders unfilled indicating only that the wholesale's head office had instructed them not to fill the order. In this way, competition from the trading departments of the SGGGA and later the UFC undermined the ability of local retail co-operatives to provide their members and the community with a range of consumer products.

Alternatively, many consumer co-operators in Saskatchewan – in communities like Davidson, Lloydminster, Young, and Melfort – were motivated by the Rochdale principles of consumer co-operation, as many of these co-operatives were formed by British settlers that had close ties to the consumer co-operative movement in that country. These members often comprised the leadership of the consumer co-operatives in these communities. Moreover, it was leaders from these co-operatives that envisioned and worked towards the development of a co-op wholesale owned by member retailers.

Macpherson states:

Rather significantly, these societies played an increasingly important role in the early twenties, and when they did, the British connection was significant because it encouraged the consumer co-ops to resist domination by the agrarian marketing co-operatives. Individuals schooled in, or aware of, the British experience were susceptible to the “consumer theory of co-operation” and less attracted to the agrarian class consciousness evident in producer groups. (1979, p. 83)

These Rochdale-inspired consumer co-operators argued that leaving consumer co-operation in the hands of producer co-operatives excluded non-producers from the benefits of co-operative buying. In fact, as Fairbairn (1989) indicates, there were claims that the UFC was excluding non-UFC members from co-operative buying, by either buying up their shares or creating an environment that compelled them to leave. The actions of the UFC were troublesome to leaders in the consumer co-operative movement, like W. Waldron<sup>3</sup> and George Keen<sup>4</sup>, who believed that the UFC was violating the

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<sup>3</sup> W. Waldron was the Commissioner of Co-operation and Markets in the Saskatchewan Department of Agriculture (Fairbairn, 1989, p. 46).

principles of openness to all consumers and political neutrality by excluding non-UFC members and aligning the consumer movement too closely with the politics of the producer movement. They were also concerned with the direction that the UFC was taking consumer co-operation; since the UFC's trading department handled the retail side of the organization, it hindered the grassroots development of local retail co-operatives and put control of consumer co-operation in the hands of an organization whose primary concern was not the provision of low cost, quality consumer products. The critique that consumer co-operators made of the consumer co-operative movement represented a dis-identification with the agrarian class-consciousness that at this point in time was directing the co-operative sector. To be clear, both consumer co-operators and farm movement leaders identified with the goals/benefits of co-operation, however, as many leaders in the agrarian movement wanted to grow their producer-organizations by focusing on consumer goods they excluded non-farmers from actualizing economies of scale and scope that were needed to extend the benefits of consumer co-operation to both farmers and non-farmers alike. In this way, while both farm leaders and consumer co-operators identified with the goals/benefits of co-operation, consumer co-operators resisted exclusionary notions of co-operation that limited participation in terms of class or occupational status. By dis-identifying with the agrarian movement's dominant logic of co-operation, consumer co-operators created the groundwork for a larger co-operative movement in the province.

The opposing interests of the UFC and the local consumer co-operatives stalled progress towards the development of a co-operative wholesale. However, both groups believed that there were benefits to working together, and in 1928 after years of debate and negotiation consumer co-op leaders made concessions that enabled the formation of the Saskatchewan Wholesale Society Limited (SWSL). Although the concessions made by the consumer co-op leaders put them in a minority position on the board, these members were able to work from within the new structure to influence other board members to encourage only one incorporation at each town or shipping point and ask that locals consult the wholesale before applying for incorporation so as to minimize the

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<sup>4</sup> George Keen was the General Secretary of the Co-operative Union of Canada from 1909 – 1944 (Fairbairn, 1989, p. 18).

potential for competition between co-operatives (Fairbairn, 1989, p. 50). In this way, leaders in Saskatchewan's consumer co-operative movement worked on and against the notion of occupational co-operation that underpinned the development of the large producer-owned co-operatives and which was functioning to exclude the broader community from enjoying the benefits of consumer co-operation.

In 1929, the SWSL, which was registered as a joint stock company, was incorporated by an act of the provincial legislature as Saskatchewan Co-operative Wholesale Society (SCWS) (Fairbairn, 1989, p. 50). That same year, the Trading Department of the UFC was rocked by an internal scandal damaging the credibility of the department, enabling leaders from the local consumer co-operatives to assume control of the Trading Department, and to increase their representation on the board at the SCWS's first annual meeting in April 1929.

Working from within the SCWS, leaders from the local co-ops ensured that the pooling concept, which was an important economic characteristic of producer co-operatives, was not applied to consumer co-operatives. This was important because selling products at cost plus wages (which was proposed by the Trading Department) reduced retained equity to virtually nil, meaning that members had no incentive to patronize the co-operative should the competition match or beat the co-op's price. It also hindered the ability of the organization to make capital investments or expand their services since the co-op would have no retained equity to draw from. Remarkably, while working from within the producer organizations, consumer co-operators were able to exercise enough autonomy and decision-making control that were able to resist transferring the marketing strategies of producer co-operatives to the realm of consumer co-operatives. Again, this notion that consumer co-operators resisted and intersected the dominant organizational forms and logics of the co-operative movement to create something new and different is illustrative of a mode of dis-identification.

Leaders from the local co-operatives also convinced the other members of the SCWS to adopt an official policy to discourage one-dollar shares (Fairbairn 1989). This was important because with such a small initial investment many co-operatives would not have the capital required to operate and grow successfully; and, like the pooling concept described previously, it meant that members had little invested in the organization and

little incentive to patronize the organization if the competition provided a preferred price or product.

Had consumer co-operatives functioned in accordance with the views of the Trading Department, their structure would have closely resembled Emelianoff's (1942) conception of the co-operative as an association. Without significant member equity or the mechanisms to retain member equity and create co-operative capital, these co-operatives would have functioned at the whim of the association, lacking capacity on the enterprise side of the organization to develop the resource base necessary to cope with pressures from the external environment.

Dis-identification, as Pêcheux (1982) suggests, *works on and against* the dominant ideology of society. In this sense, dis-identification is a critical and reflexive process. The formation of the SCWS illustrates that consumer co-operators not only dis-identified with the exclusionary logic and practice of the IOF, but also with the dominant logic of the farmer-owned producer co-operatives that wanted consumer co-operation to be the exclusive domain of the prairie farmer. They argued that in order to build a strong co-op movement, especially a strong consumer co-operative movement, it was necessary to have a co-op wholesale owned by and servicing the co-op retails and for this wholesale to be autonomous from the large producer co-operatives. To achieve this they had to work first *with* the producer co-operatives to develop the wholesale and then *against* the producer co-operatives to ensure that consumer co-operators rather than producer co-operators controlled the wholesale.

## **5.2. The Consumers' Co-operative Refineries Limited**

Oil was an important commodity for many of the early retail co-operatives as the use of gas and diesel-powered tractors, cars, and trucks became more widespread. During the late 1920s and early 1930s, co-operatives purchased bulk petroleum products that would be delivered to the co-op by rail. The co-operatives would then put the petroleum in storage tanks, since government regulations prevented co-op members from unloading the product directly into their tractor or automobile. As Wright indicates, co-op members were able to realize “considerable saving in the form of patronage refunds ... as the spread between the wholesale and retail gasoline price was from five to seven cents a gallon” (1956, p. 123).

However, the working relationship established between the petroleum companies and the local co-operatives did not last. The petroleum industry was consolidating, and market collusion was running small players out of the market. The Canadian government supported the oil companies' fledgling oligopoly as it made regulatory interventions to protect and develop Canadian oil fields and refining. These interventions enabled the oil companies to increase the prices that co-operatives (and independent retailers) paid for refined oil, effectively pricing co-ops out of the marketplace. The following case illustrates how local retail co-operatives and their members dis-identified with the exclusionary logic and practices of the oil companies and the state by forming their own co-operatively owned oil refinery that extended the rights to use and benefit from the refinery to co-op members.

During the early 1930s, the SCWS, headquartered in Saskatoon, was handling petroleum products for the local co-operatives; meanwhile in southern Saskatchewan, retail co-operatives were handling their own petroleum orders. At that time, co-operatives in the Regina area could buy wholesale product from four companies: Imperial Oil in Regina; Northwest Stellarene in Coutts, Alberta; Maple Leaf Petroleum, also in Coutts, Alberta; and Sterling Oil Refineries in Moose Jaw (Fairbairn, 1989, p. 67). By 1934 the number of wholesale suppliers went from four local suppliers down to two large multinationals; as Fairbairn indicates, "Imperial Oil bought out Maple Leaf Petroleum, and both of the other two were purchased by the British American Oil Company" (1989, p. 67). Following this consolidation the wholesale price of gasoline increased by as much as three cents a gallon. According to Wright, the co-operatives considered the price increase as "an arbitrary profit-taking price increase, dictated by a monopoly unable to justify the increase by additional costs in the price of crude oil or manufacture," and the first of a series of moves to run the oil co-operatives out of business (1956, p. 124). To make matters worse, Prime Minister Bennett had applied a "gallonage tax" to gasoline imported from the United States in order to assist the development of the Canadian oil industry, making the American product unaffordable.

Co-operators had few alternatives. They could continue as is and quickly run their co-operatives out of business, or they could accept defeat and fold their co-ops, in which case members would have no option other than to purchase oil and gas from the large

multinationals. Resistant to both of these alternatives, and lacking support from the provincial wholesale, members and managers from the southern oil co-operatives proposed to construct their own oil refinery.

This act of imagining a co-operatively-owned oil refinery marked a clear dis-identification with the IOF form and property rights structure. Not only did this imagining resist applying the IOF ownership structure to the formation of a new oil refinery, it also proposed using the co-operative form and property rights structure in a way that it had never been applied. By applying the co-operative ownership structure to the refinery concept, the organization intended to empower consumers by extending the rights to benefit from the refinery to the individuals that use the product of the refinery, thereby ensuring that members paid a fair price for the oil that they purchased.

On 29 March 1934, 12 people from eight co-operatives attended the first meeting of the planned refinery and agreed that the share value be set at \$25 and it was urged that each subscriber purchase one share for every 160 acres of farmed land, up to a maximum of eight shares (Fairbairn, 1989, p. 68). In April 1934, the Consumers Refineries Co-op Association Limited was incorporated under the Co-operative Associations Act of Saskatchewan (Wright, 1956, p. 125).<sup>5</sup> Following incorporation further meetings were held in the ten communities where the local co-op supported the refinery association to gather support for the refinery.

During these preliminary discussions, Fowler, the secretary-manager of the Wilcox co-operative, distinguished himself as a leader and driving force behind the refinery idea. According to Fairbairn, Fowler believed that the refinery should be formally tied to the local co-ops, “creating an integrated co-operative structure with firm local roots, rather than just an independent central refinery” (1989, p. 69). Fowler envisioned the refinery as a second-tier co-operative that was owned by the local co-operatives; however, the ownership structure proposed at the first meeting called for individual farmers to be the shareholders in the co-operative. Fairbairn (1989) suggests that this plan did not sit well with Fowler. It is possible that he was concerned that without formal ties to the local co-operatives the refinery might at some future time be

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<sup>5</sup> The following year a special act of incorporation for the name Consumers Co-operative Refineries Ltd. was secured (Wright, 1956, p. 125).

converted to an IOF through a share conversion. Another concern that he may have had was that if the refinery was autonomous from the local co-operatives it might possibly undermine the refinery's relationship with and the security of the local co-ops, especially if it began to establish its own retail outlets, which was a legitimate concern given the behaviour of the Trading Department years earlier. Such a move would counter the grassroots formation of local oil and retail co-operatives.

While some believed that Fowler's idea of a second-tier co-op refinery had merit, it was generally understood that the local co-operatives could not raise sufficient capital on their own. However, Fowler was not deterred by the general consensus that his idea was impractical; as Fairbairn indicates, "Fowler ... arranged that all the shares that he sold in his Wilcox area be designated as purchased "in trust" by individuals on behalf of the Wilcox co-op" (1989, p. 69).

Interestingly, while Fowler was determined to ensure that the co-op refinery would be owned and controlled by local member co-operatives, the SCWS declined to support the refinery during its initial start-up. As Wright indicates:

When the idea was discussed with directors of the Saskatchewan Co-operative Wholesale Society, men guiding the affairs of the still struggling wholesale were doubtful. Even the usually bold Warren Hart doubted that a refinery could end in anything other than failure. (1956, p. 125)

Apart from doubting that a co-operative refinery could succeed, Fairbairn (1989) and Wright (1956) suggest that SCWS did not have the financial security to support the refinery project at that time. During the economic depression of the 1930s, it is understandable that the cognitive model of the SCWS, a young organization that is responsible to its member-owners, might identify with a logic of fiscal conservatism. While the SCWS's identification with fiscal conservatism would enable it to ensure its own organizational survival, the members of the CCRL could not identify with a logic of fiscal conservatism and hope to see their local co-operatives and farm operations continue to survive. Their cognitive models had to adjust rapidly to the changes occurring around them. They had to reject the logic of fiscal conservatism that had directed the day-to-day operations of the local oil co-operatives and identify with a logic of growth and diversification in order to compete with the IOFs in the oil refining sector. Importantly, this shift from a logic of fiscal conservatism to growth and diversification did not include

a rejection of or a shift away from the co-operative form. The historical record shows that from the very start the group was determined to form a co-operative; oligopoly control and behaviour by the oil companies, like grain handling/pooling issues at the time, was seen through a lens of consumer co-operation and agrarian class solidarity that reinforced an identification with the “helping ourselves” logic of the co-operative organization.

By the time of the first shareholders meeting in November 1934, \$32,000 in member share capital had been contributed to the co-op refinery. At the meeting some members raised concerns that \$32,000 was not sufficient capital to begin construction on the refinery, and if sufficient capital to construct a cracking plant was not obtained that the original contributions should be returned to the shareholders (Wright, 1956, p. 125-6). Other members were of the mind that no further capital should be obtained from cash-strapped farmers. According to Wright, “The decision was left to the newly elected board of directors, the majority of whom voted to build the only type of refinery the meager capital would permit – a 500 barrel capacity skimming plant” (1956, p. 126).

Production from the newly constructed refinery began on 27 May 1935. Fairbairn reports that within its first week of production, the refinery filled all of the storage tanks of the local oil co-operatives, and much to the disgust of the refinery superintendent, O.B. Males, production had to be temporarily shut down until more storage capacity was made available (1989, p. 72). In a positive sign of co-operation among co-operatives, the Saskatchewan Wheat Pool signed an agreement with the refinery to supply 180 Pool elevators with gasoline, providing the refinery with the critical volume that it required to operate consistently and with a well-needed and well-timed influx of working capital (Fairbairn, 1989, p. 72).

Despite operating for six months of the year in 1935, refinery sales for that year totaled \$253,011 with net earnings of \$28,306 (Fairbairn 1989; Wright 1956). The refinery’s remarkable performance in its first year grabbed the attention of SCWS directors. In January of 1936, an agreement was reached between the two organizations that would have the SCWS “act as a broker for refinery products for a brokerage fee of up to 1/2 cents per gallon, and would purchase and accumulate stock in CCRL the same as local retails did – setting aside 3 cents per gallon purchased in a share capital account” (Fairbairn, 1989, p. 73). In time, the SCWS became the refinery’s largest distributor. The



relationship that followed assisted both organizations in developing economies of scale to meet the needs of their members, and grow the co-operative movement in the province.

Fairbairn states:

Because of the refinery's commitment to working with local co-ops, and with the wholesale society, and to tying all of these together into an integrated network, handling each other's products, owning each other's shares, attending each other's meetings, the co-operative movement in Saskatchewan was immensely reinforced. (1989, p. 73)

At the same time, it was also understood that the refinery needed to add a cracking plant to remain competitive in the industry in order to produce more products that the market demanded (including high-octane gasoline) and to achieve higher profit margins with the processing of heavy crude (Fairbairn 1989; Wright 1956). In July 1936, the association decided to put its energy towards the construction of a cracking plant; however, it was not until 1940 that the refinery had the economic health to go ahead with the cracking plant (Fairbairn, 1989, p. 75).

The CCRL story highlights a number of points. First, it indicates that for farmers and many rural dwellers the choice of organizational form was tied to an identification with their local co-operatives and communities. This identification was in part a product of the logic and discourses of the agrarian farm movement; which, at that time, rejected the IOF form, as farmers were often the victims of oligopolistic behaviour by IOFs. Alternatively, CCRL organizers did not pursue state intervention as a possible response to the oil sector's oligopoly control. Local co-operators needed to respond quickly to changes in the marketplace, and given the federal government's decision to regulate the oil and gas sector to develop capacity, thereby excluding competition from American suppliers, government support for local retail co-operatives operating in this sector during a time of severe economic depression would have been extraordinary. As a result, local co-operators worked together to resist the pressures from the oil industry and the government. Rather than collaborating to petition the government for a regulatory response or forming an IOF oil refinery, the retail co-ops and their members dis-identified with the exclusionary logic of the IOF and worked together to form a co-operatively owned oil refinery that would strengthen their local communities. In other words, the response of the retail co-ops and their members was an innovative imagining that resisted the tendency of some groups to identify with a fatalistic vision of progress

(i.e. market determinism) or seek a paternalistic intervention from the state; rather, the decision to develop their own oil refinery is an “assertion of autonomy” (Coleman 2004) that indicates a critical act of imagining and dis-identification with the dominant organizational logics and forms of society.

Second, this case distinguishes between identification with and loyalty to a specific co-operative organization from an identification with the co-operative form and logic as an instrument for building or advancing a co-operative movement. Given that the SCWS was also facing uncertain economic conditions, its decision to focus on its core organizational needs is understandable. The position taken by Fowler and other local co-operative leaders to adopt the co-op model and to position CCRL as a second-tier co-operative indicates an identification with a broader logic of co-operation as an extension of rights to use and benefit from a resource. Certainly, the SCWS’s absence in the early formation of the CCRL was in many ways an issue of organizational loyalty and identification trumping a broader identification with the development of a larger consumer co-operative movement.

Importantly, the SWP provided the financial support required to sustain the fledgling oil refinery at a crucial period in its first months of operation. In the years that followed, the SCWS did provide a distribution network and support for the refinery; this integration led to the merger of SCWS and CCRL in 1944. In the end, Fowler’s vision of a CCRL owned by member co-operatives became a reality, thereby formally linking and securing the CCRL to the larger co-operative sector.

### **5.3. Summary**

Identification with the co-operative form results from a dis-identification with the IOF and the SOE, and the private/corporate property rights structures that these organizational forms represent. For consumer co-operators in Saskatchewan this dis-identification with the dominant organizational forms was the result of a strong understanding and knowledge of co-operative principles and values, and an agrarian class-consciousness that provided the autonomy and the grassroots support that was necessary to develop a co-operative movement. However, as this chapter has shown, the consumer co-operative movement would not have developed into a province-wide network of retail co-operatives providing a full range of consumer products – groceries, lumber, and

petroleum – if it were not for those consumer co-operators that dis-identified with the producer-oriented logic that had directed the province’s co-operative sector.

Importantly, in both cases, consumer co-operators imagined new ways of organizing and delivering services to their members. This creative or imaginative aspect of the dis-identified mode of consent is especially observable in the formation of the CCRL and the decision by its membership to provide a service to its members that no other co-operative had ever attempted. It is significant that in both cases these imaginings occurred as consumer co-operators were seeking to establish some form of autonomy from the organizational forms and logics that dominated their respective retail sectors.

## **Chapter 6: The Saskatchewan Wheat Pool Conversion**

The conversion of the Saskatchewan Wheat Pool (SWP) from the largest producer-owned agricultural co-operative in Canada to a publicly traded co-operative signaled a significant shift in the property rights structure and cognitive model of the organization. The SWP's conversion was in response to a number of exogenous and endogenous pressures facing the large mature co-operative. The most important of these pressures were the deregulation of the grain handling system and a substantial looming equity payout to retiring members. The uncertainty created by these pressures compelled the organization to imitate the behaviours and organizational structure of the large, multinational agri-business companies that dominate the North American marketplace. As many commentators have indicated, the Pool was attempting to establish itself as "the ConAgra of the North" (Lang 2006).

This case study will demonstrate how isomorphic pressures from the marketplace and state can shift the cognitive models of co-op managers, directors, and members toward an identification with the logic and form of the IOF. In doing so, it will track the exogenous and endogenous pressures that started the SWP down its conversion path from a co-operative to a publicly traded co-operative and eventually to a publicly traded corporation. It is important to note that much of the information for this case study was sourced from Kathy Lang's thesis, *Cognition, Agency Theory and Organizational Failure: A Saskatchewan Wheat Pool Case Study*.

### **6.1. A short history of the SWP, 1920s – 1980s**

The SWP began in 1924, after Pool organizers established five-year contracts with producers for 50 percent of the province's seeded acreage. In the years that followed, the Pool grew its network of prairie grain elevators from 89 primary elevators in 1925 to 970 by 1928 (Fairbairn, 1984, p. 67). The Pool's growth was propelled when it purchased the Saskatchewan Co-operative Elevator Company in 1926, acquiring 451 elevators, two Lakehead terminals, and a transfer terminal in Buffalo. The Pool's third annual report

(1926-27) boasted that the 90 million bushels that the system handled that year was “the greatest quantity of grain ever handled by a single organization through its own facilities in any country in the world” (Fairbairn, 1984, p. 67).

Hard times hit the Pool in 1929-30 as the Central Selling Agency that marketed the grain of the SWP and the Manitoba and Alberta Pools collapsed following an overpayment to members that resulted when the bottom fell on the market and the world price for wheat crashed. The 1930s provided further challenges for the Pool. The Pool lobbied the federal government for the establishment of a Wheat Board to improve grain prices for cash-strapped, drought-stricken farmers. The Pool also supported drought-stricken farmers and their communities by promoting co-op development throughout the province, providing resources and education to retail co-operatives and credit unions, providing timely support to the fledgling co-op refinery in Regina.

The 1940s marked a period of expansion and diversification as SWP invested in livestock sales, a vegetable oil crushing-processing plant, a flourmill, and expansions to its printing operations. Investments in these businesses were supported by better returns in the Pool’s core grain-handling operations (Fairbairn 1984). Also in the 1940s, the Pool’s lobby efforts from the previous decade resulted in the formalization of the Canadian Wheat Board as the sole marketer of prairie wheat.

The 1950s and 60s marked a time of reorganization for the Pool as it began to adapt to changes in transportation technology, declining farm populations and growing farm size by consolidating its extensive grain elevator system while renovating and modernizing existing facilities. Other initiatives included the construction of a large port terminal in North Vancouver, the creation of a farm supply business, research that developed new industries and markets for rapeseed (canola) production, and a joint venture with Federated Co-operatives Ltd. and the Alberta Pool creating Western Co-operative Fertilizers Ltd. (Fairbairn 1984).

In 1972, the SWP made its most important acquisition of the decade as it, along with its Manitoba and Alberta counterparts, negotiated a deal to purchase the Federal Grain Company. The deal provided SWP with a monopoly in 217 delivery points in Saskatchewan (Fairbairn, 1984, p. 201). Following its takeover of Federal Grain, the Pool secured its position as the dominant player in the province’s grain handling system. At

this time, the Pool's share of the province's grain handlings was above 67 percent; this declined to 63 percent by the end of the decade as a result of elevator consolidation (Fairbairn, 1984, p. 203; Lang, 2006, p. 97).

Also in the 1970s there was renewed pressure from the federal government to change the Western Canadian grain-handling system. These pressures culminated in the 1980s in changes to the Crow's Nest Pass Agreement, with the Pool playing an important role in representing the interests of Saskatchewan producers. A new agreement, the Western Grain Transportation Act (WGTA), was signed in 1984.

During the 1980s, market deregulation was a critical issue for the Pool. Following the passage of the WGTA, the Pool continued to represent the interests of farmers and rural communities on issues like grain transportation. For instance, the Pool argued against the application of variable freight rates in public hearings in 1985, which it believed would threaten the country elevator system by providing more favourable rail rates at large centralized rail points ("Sale has an ironic ring to it," 1990). In addition to regulatory changes to the grain-handling and transportation system, the federal government also entered trade negotiations with the United States. On January 1, 1989 the Canada-United States Free Trade Agreement (the FTA) came into effect, eliminating trade tariffs, increasing market access for foreign business and decreasing subsidies to domestic firms (Lang 2006).

At this time Pool officials began to explore some options to cope with the regulatory changes that they were anticipating. In 1987 and 1988, representatives from the three Prairie Pools met to discuss the possibility of merger to form one all-encompassing prairie pool with facilities in Manitoba, Saskatchewan and Alberta (White, 2003 February 13). The discussions did not build the consensus required to go ahead with a merger. The issue was reintroduced in 1994, 1997 and 1999 with similar results (Lang, 2006, p. 100).

## **6.2. Conversion, 1990 – 2005**

Having failed in its attempts to forge a merger with the Manitoba and Alberta Pools, the SWP proposed a share conversion plan to its members in order to prepare itself for increasing competition as the federal government proceeded to deregulate the prairie grain-handling system. In July 1994, member delegates of the SWP voted in favour of a

share conversion plan that would convert the Pool to a publicly traded co-operative with shares listed on the Toronto Stock Exchange (TSE). Pool shares started trading on the TSE on 2 April 1996. The share offering enabled the co-operative to convert member equity (equity that was redeemable upon producer retirement) to share holder equity, thereby creating a stable form of equity that financial institutions were willing to lend against (Lang, 2006).

In 1997, the SWP launched Project Horizon, its plan to restructure and modernize its grain-handling operations to address increasing competition, industry deregulation (including changes to the railway transport system), and changing farmer demographics. The plans were ambitious and the SWP moved quickly to reposition itself to maintain its market share in the face of increasing competition. The \$270 million Project Horizon involved the construction of 22 large inland grain terminals in Saskatchewan, Manitoba and Alberta and the closure of 70 primary grain elevators in Saskatchewan (SWP, 1998 Annual Report). Project Horizon was not the only large investment the Pool made. Lang indicates that “there were at least twenty expansions and acquisitions made throughout the decade” (2006, p. 107), including the Pool’s widely publicized decision to invest in a number of foreign projects including grain terminals in Poland and Mexico.

In 1999, the SWP posted a net loss of \$14.3 million, and in the following year it recorded its biggest net loss, \$97.7 million (Lang and Fulton, 2004). The Pool continued to experience net losses in 2001, 2002, and 2003. In March 2003, the Pool completed a financial restructuring agreement with its debtors that set the course for the co-operative to complete its conversion to an IOF. On March 31, 2005, the Pool completed its conversion from a publicly traded co-operative to a Canada Business Corporation (SWP, 2005 Annual Report).

### **6.3. Shifting identification: Analyzing the endogenous and exogenous pressures that shifted the cognitive model of the SWP**

The Pool’s conversion from a producer-owned to a publicly traded co-operative in 1996 marked a fundamental shift in its organizational structure and behaviour. For the first time in its 70-year history, Saskatchewan farmers did not wholly own the Pool. This new property rights structure changed the organizational objectives of the Pool; it was now responsible to both its producer-member Class A shareholders and its member and non-

member Class B shareholders. It was this group of Class B shareholders, including non-members, that expected the Pool to return a dividend on their capital investment. The Pool's new organizational structure also diminished its role as a farm policy advocate, as management and the board identified more and more with the logic and rationales of the large multi-national firms that dominated the North American marketplace and less with the policy objectives of an increasingly heterogeneous membership. These initial structural changes and the shift in the cognitive model of the organization's management and board set the course for the SWP to complete its conversion to an IOF in 2005.

While the Pool's shift in structure is clearly identifiable, its behavioural or cognitive shift is not so clearly defined. This section will analyze some of the exogenous and endogenous pressures that provoked the Pool's management and board to identify with the organizational logic and form of the IOF causing the organization to pursue a share conversion plan in 1994.

### ***6.3.1. Exogenous pressures***

Increasing competition is an important exogenous pressure that can cause co-operatives to imitate the behaviour of their IOF competitors in order to survive. State-sanctioned deregulation can accelerate the rate of competition in a previously stable market, like the western Canadian grain-handling industry, as it opens up a previously regulated market to new competition. This section will indicate how the coercive pressures of the state vis-à-vis deregulation and mimetic pressures from the marketplace – IOF competitors and other co-operatives – influenced the SWP's shift in behaviour and form.

#### *6.3.1.1. Deregulation: Coercive isomorphism*

From its early formation through to the mid-1990s, the grain-handling system in Western Canada was generally comprised of wooden grain elevators serviced by an extensive system of railway branch lines. For decades, the system prevailed as it was linked to the Crow's Nest Pass Agreement (signed September 6, 1897), which provided prairie grain farmers a subsidized freight rate (commonly referred to as the Crow Rate) on grain and flour shipments. The agreement was the result of a deal between the Government of Canada and the Canadian Pacific Railway Company that provided the company with assistance to construct a railway line from Lethbridge, AB, through the Crow's Nest Pass



to Nelson, BC (Lang, 2006, p. 52). By the 1970s, the agreement had become unaffordable for the railways. Competition from trucking industry increased, as did the costs associated with maintaining the branch line system, while the statutory rate paid by farmers meant that the railways covered a higher percentage of the total shipping costs for grain (Lang, 2006, p. 60).

Grain producers realized that an end to the Crow Rate would accelerate the consolidation of the grain handling system, and the loss of hundreds of small town grain elevators as a result of branch line closures. Throughout the 1970s, prairie grain producers, with the support of the Manitoba, Alberta, and Saskatchewan Pools, staved off coercive pressures from the railways and the federal government to put an end to the Crow Rate. However, in 1980, Liberal transport minister Jean-Luc Pepin launched yet another drive to change the Crow (Fairbairn, 1984, p. 225). Previously, it had been the position of the Pool and other farm groups and their supporters not to enter into negotiations with the federal government. So, when the Pool delegates endorsed a compromise policy proposed at the Western Agricultural Conference (WAC) in November 1980, there was a backlash directed at the board and delegates for endorsing a policy change, especially one that had come not from the Pool's grassroots, but from above at the WAC level (Fairbairn, 1984, p. 226).

Despite the backlash, the Pool entered into negotiations with the railways, the federal government and other parties to negotiate a new deal for Western farmers. The result was the Western Grain Transportation Act (WGTA). The WGTA, which provided a \$658.6 million annual payment to the railways to mitigate the costs associated with maintaining branch lines for the purpose of grain shipping, replaced the Crow Rate on August 1, 1984 (Lang, 2006, p. 66). Having the Crow benefit paid to the railways was an important victory for the Pool, since it did not want the Crow to be viewed as an agricultural subsidy by a later government and thereby more easily eliminated (Fairbairn, 1984, p. 231). An important outcome of the WGTA was that while it effectively staved off branch line closures, the act also provided "incentive rates that favoured 25-plus car units ... which encouraged consolidation of the elevator network" (Lang, 2006, p. 66).

By the early 1990s, the Pool management and board were anticipating further regulatory changes. In 1989, the FTA between Canada and the United States was passed

into law, and following the FTA's passage the Canadian government engaged in international negotiations on the General Agreement on Tariffs and Trade (GATT) and tri-lateral talks with the United States and Mexico on the North American Free Trade Agreement (NAFTA). In 1992, Pool President, Garf Stevenson remarked in his Annual Address to Pool delegates: "To a large extent, agri-food policy developments will continue to be influenced, directed or controlled by the EEC [European Economic Community] and USA" (1992, p. 6). He also commented on the future of the grain handling system, stating: "It is imperative that we develop our future grain handling system on the basis of efficiency and equity. This will necessitate tough choices which will require strong leadership at the member, delegate and Board levels" (Stevenson, 1992, p. 2).

So, as the international markets and powers moved toward a more liberalized trade environment, these exogenous pressures, combined with the federal government's desire to end its financial commitment to Western grain producers, provided the context for the government to eliminate the WGTA on August 1, 1995. Unlike the previous challenge to the Crow Benefit, the Pool did not launch much resistance to the plan to eliminate the WGTA. Instead, the Pool responded by shifting in its property rights structure towards an IOF-like form, in order to prepare itself for the capital investments that would be required as it modernized and consolidated its grain handling system. A senior manager interviewed by Lang stated, "as all the regulations fell away from the grain side they [the Pool] simply had no choice but to become much more market driven and market influenced" (2006, p. 116).

The decision by the SWP to shift its organizational form as a response to forthcoming deregulation indicates a strong shift in the cognitive model of the organization. The Pool's decision not to resist the changes that were occurring, as it had a decade earlier when it was a key player in negotiating a deal for prairie farmers, suggests that the Pool did not have the political capital to negotiate on behalf of producers, possibly fearing that it would further divide western Canadian producers. The Pool's decision also indicates a fatalistic identification with a neo-liberal conception of the IOF as the singular and dominant free-market organization. It suggests that the Pool believed that deregulation was inevitable and that it was better to prepare for these regulatory

changes than to resist them. A former Pool board member interviewed by Fulton and Lang stated:

We long and hard argued against changes to the Crow or loss of the Crow. We knew that it was probably going to happen; the federal government was determined to get rid of the Crow Benefit. We were constantly deciding on these investments with that in the back of our mind. We didn't want to lose the Crow Benefit but we believed politically that we could not save it so we better be prepared if that happens. The other thing that was constantly in the back of our minds that was brought to the table by management was the fact that with some of the changes that would happen when the Crow was lost was that we would have to be big enough to take on the multinationals and if we weren't we wouldn't survive. So were preparing ourselves for that day when we would have to face the Louis Dreyfuses and the ConAgras of the world and be competitive with them. (2006, p. 9)

In fact, it seems that within the organization this understanding had been present for a number of years. Fulton and Lang (2006) indicate that during the 1980s and early 1990s there was a belief at the Pool that it needed to find new sources of capital in order to make the investments necessary for the organization to survive the increased competition that would follow market deregulation. Former SWP board members interviewed by Fulton and Lang (2006) attribute this belief to Pool CEO Milt Fair (1981 – 1993). However, it was not until Don Loewen replaced Milt Fair as CEO that the Pool began to more seriously investigate what options were available to the organization to cope with the looming deregulation.

The regulatory changes that the federal government had pending for the WGTA were a source of coercive pressure on the organization. While the Pool had previous success negotiating changes to the Crow Benefit in the 1980s, those negotiations had also used up much of the organization's political capital. The issue had fractured the Pool's membership, leading some members to deliver grain to Pool competitors. As a result, there was little appetite among the management and board of SWP to press the issue with Ottawa. Moreover, the Pool's management believed that deregulation was inevitable, and rather than challenge the coercive pressures emanating from the federal government, international trade bodies, and the marketplace, the SWP looked to the market for possible solutions. The result was a strategy of mimetic adaptation – an identification with the organizational form and logic of the IOF.

### *6.3.1.2. Increased competition: Mimetic isomorphism*

In the newly deregulated western Canadian grain handling system, competition from multinationals and farmer-owned inland grain terminals threatened to decrease the Pool's market share. The Pool's market share had remained relatively stable following its 1972 takeover of Federal Grain. At that time, the Pool's share of the Saskatchewan grain handling market reached 67 percent, although it declined to 63 percent by the end of the decade (Fairbairn, 1984, p. 203). The Pool's market share remained relatively stable into the 1990s, holding around the 60 percent mark; however, in 1999, the Pool's market share began to decline, standing at 35 percent in 2005 (Lang, 2006, p. 97). These losses in market share occurred as the grain elevator companies began to restructure themselves in order to respond to changes in the grain handling system and an influx of new competitors into the marketplace. With the exception of Cargill, which was already present in the market, many of the multinationals entered following the elimination of the WGTA, including Louis Dreyfus (1998), ConAgra (2004), and Archer Daniels Midland (via UGG, 1997). As Lang states, "By choosing to enter western Canada at the peak of deregulation and consolidation, the companies were able to build at viable points on the main lines" (2006, p. 82).

One of the Pool's most important market competitors during the 1990s was the United Grain Growers (UGG). Like the Pool, UGG also converted from a co-operative to public-traded company in 1993, allowing it to raise capital through the sale of shares on the stock market (White, 2003 February 13). UGG used the \$123 million in capital that it acquired from its share conversion to invest in new plants and pay down debt. As Lang indicates, three more share offerings were made in 1993, 1994, and 1996 raising \$56 million for UGG to make additional investments to its grain handling system (2006, p. 116). In 1997, the large American multi-national Archer Daniels Midland purchased a 45 percent interest in UGG; the \$81 million investment provided the company with new capital that allowed it to continue making capital investments and to position itself to be the dominant player in Western Canada (Wilson, 1997 November 13). In November 2001, UGG solidified this position when it acquired Agricore (the company formed when the Manitoba and Alberta Wheat Pools merged) forming Agricore United (AU).

Producer-owned inland terminals were also providing an additional source of competition for the Pool. The Weyburn Inland Terminal (WIT), the first farmer-owned terminal in Saskatchewan, opened in November 1976 (Herman, 2003). Although it took sixteen years before a second farmer-owned terminal opened its doors in northeastern Saskatchewan, nine other farmer-owned terminals have come on line since 1996. Many of the producer-owned terminals partnered with established grain companies to secure access to port facilities; for instance, Cargill was a partner in four facilities, Agricore United in two facilities, and Pioneer in another two terminals (Herman, 2003; Lang, 2006). The development of producer-owned terminals was an important development in the western Canadian grain-handling system. It indicated to the Pool and the other large grain-handling organizations that they needed to change the way that they did business. Producers wanted guaranteed delivery space, seed drying and sorting technologies, and increased competition. They also wanted to have ownership in the grain-handling system, although they were growing skeptical of co-operative ownership.

Many of the strategies that the Pool used to respond to the increasing competition that followed deregulation suggest that the Pool was imitating the strategies and behaviours of the large multinational agribusiness corporations that were poised to enter the marketplace. The most important of these strategic decisions was the Pool's decision to convert the organization to a publicly traded co-operative, a decision that reflected an identification with IOF form and logic. This decision was critical for the Pool to achieve the scope and scale of diversification and growth (mimetic strategies) that it believed would be necessary to adjust to a deregulated marketplace. For the Pool, being a big player in the grain trade was an important part of its identity and cognitive model. There were expectations that the SWP would become the next Cargill (White, 2003 February 13) or "the ConAgra of the North" (Lang, 2006). As Lang indicates there were those in the Pool that believed it would be "one of the four or five top grain companies in the world" (Interviewee cited by Lang, 2006, p. 119). The SWP's 1997 decision to invest with help from outside partners in overseas port facilities in Mexico and Poland indicates that it wanted to realize these goals as it attempted to broaden its presence in the international marketplace. These behaviours are in line with Goddard's (2002) argument

that some co-operatives are imitating multinational firms, as they use external financing and borrowing to start new enterprises.

The aggressive position taken by the Pool on Project Horizon and subsequent projects was part of a new cognitive model that the Pool's board and senior management were adopting. Lang argues that this new cognitive model included components of their old model – beliefs of market dominance and member loyalty – combined with new beliefs of urgency and a need for culture change (2006, p. 117). The Pool's belief that it needed to take urgent action is highlighted by its decision to build all 22 of its Project Horizon inland grain terminals simultaneously. As Lang suggests, the decision was part of the Pool's "attempt to lock up contractors before others could build" (2006, p. 135); thereby, stopping the competition from investing where the Pool had. However, the plan did not work and competitors built facilities next to the Pool's.

The construction of large concrete inland grain terminals was another way that the Pool imitated the strategies of its competitors. The inland grain terminal was not a new technology to Saskatchewan. Beginning with the WIT, grain farmers dissatisfied with the wooden elevator system had been constructing concrete inland grain terminals that could receive, dry, clean, and ship large quantities of grain more efficiently than the wooden elevator facilities used by many of the large grain-handling companies (Herman, 2003, p. 119). However, the Pool's decision to build with concrete, although conveying a sense of permanence and financial strength, was potentially a strategically poor decision. Many individuals interviewed by Lang questioned the decision to go with concrete, especially after competitors like ConAgra and Louis Dreyfus built lower cost steel facilities that were more cost competitive than the Pool's concrete terminals. Other interviewee comments indicate that "a number of those locations were not well thought out or well researched", and that the Pool was in a hurry to tie up contractors (Lang, 2006, p. 136).

As this section has indicated, the Pool believed that regulatory changes to the western Canadian grain-handling system were inevitable; they also believed that if they attempted to stall these changes by negotiating with the government that they would alienate certain groups within the membership. These pressures caused the management and board of the Pool to shift their cognitive model away from the logic and form of the co-operative toward an identification with the IOF form and logic. The Pool's decision to

imitate the IOF form and convert to a publicly traded co-operative enabled it to secure external financing from lenders to make the capital investments that it believed were necessary to cope with the increase in competition that it anticipated would result from changes to the regulatory environment. Moreover, the Pool believed that these new investments and changes to the organization were necessary if the organization was going to become one of the largest grain and agri-food businesses in North America. As a result, Pool management shifted their cognitive models away from issues that concerned the membership (i.e., proximity to the nearest delivery point, which often coincided with the survival of local grain elevator and the local community) and towards those strategies – efficiency (i.e., consolidation) and growth (i.e., expansion into new markets, investment in new handling facilities) – that matched its goals and objectives for the organization. This disconnect between the cognitive models of the membership and the Pool’s management suggests that a principal-agent problem was present. This problem will be discussed in the following section.

### ***6.3.2. Endogenous pressures***

Internal problems – such as principal-agent, and horizon problems – create endogenous pressures in co-operatives that can cause the co-op and its members and management to identify with the IOF structure. Agency problems occur when the goals of the management and the membership are not congruent, and when the board of directors is unable to adequately monitor the activities of management. Endogenous pressures arising from horizon problems can exacerbate the severity of exogenous pressures, compelling co-op decision-makers to scan the external environment for potential solutions.

This section will indicate how endogenous pressures resulting from horizon and agency problems led management to identify with and imitate the behaviour and structure of the large multinationals that dominated the grain-handling system in North America. The result was a shift in the property rights structure of the SWP from a co-operatively-owned to a publicly traded organization.

#### ***6.3.2.1. Horizon problem***

With its membership aging, the prospect of making increasingly larger equity repayments to its retired members was a critical challenge to the Pool, and was identified by Pool

managers and directors as an important reason to proceed with the share conversion. At the time of the share conversion, 46 percent of the Pool's membership was over the age of 55 years, and the levels of equity repayments ranged between \$20 to \$30 million every year (Heavin, 1995, p. 205). And, with significant investments required to modernize and consolidate its grain handling facilities, increasing competition, and with fewer young farmers coming into the organization, there was little opportunity for the Pool to generate the capital required to cover its growing equity repayments to retiring members. Pool managers believed that they would need to deal with the equity repayment issue in order to proceed with their plans to modernize and consolidate the organization's facilities. The share conversion provided a solution to this problem as it converted member equity to a share value that was redeemable on the open market. The share conversion provided for two types of shares: the Class A voting share; and, the Class B non-voting share. The Class A share, valued at \$25, was issued to Pool farmer-members entitling them to vote in delegates for local elections and join local Wheat Pool committees.

Class B shares represented the major portion of the accumulated equity of farmer members, which was converted to tradable shares on the TSE. Restrictions were set on these shares, so that no one shareholder could hold more than 10 percent of the total Class B shares. Although Class B shareholders were restricted from voting in delegate elections, according to Heavin, pursuant to the *Saskatchewan Business Corporations Act*, "shareholders will have the right to vote on fundamental changes to the corporation or on changes that may affect their Class B shareholder rights" (1995, p. 207-208). Therefore, while the Class B shareholders did not have the right to vote for delegates, the new structure attenuated some of the decision-making control formerly enjoyed by the farmer-members.

The decision to convert from a producer-owned to a publicly traded co-operative was congruent with the decisions that management and the board wanted to make in order to prepare the Pool for the changes that were going to occur in the grain-handling industry. Pool management believed that the organization had to imitate the behaviour and structure of its IOF competitors if it wanted to survive in a deregulated marketplace. Arguably, the horizon problem issue provided SWP management with the motivation to justify and pursue their plans to convert the co-op to a publicly traded organization. For



some SWP farmer members the opportunity to make an income from the sale of their Class B shares following the share conversion was perhaps a motivating factor that dissuaded them from challenging the Pool's decision. Ironically, it is likely that some farmers that sold their shares may have used that income to invest in their local farmer-owned terminal. Despite these motives, many farmers were also keen on maintaining the local grain elevator, since it provided tax income and employment to the local community and provided transportation savings to nearby farmers. Furthermore, with the Pool shares trading on the TSE, farmers would lose an important voice on the farm policy stage, since the Pool could not be seen as favouring farmer interests over the interests of other Class B shareholders. These competing motives and rationalizations intersected to exacerbate the Pool's principal-agent problem.

#### *6.3.2.2. Agency problem*

While most of the Pool's management, directors and delegates believed that the share conversion was necessary for the organization to adapt to the changes occurring to the grain handling system and to respond to its looming horizon problem, there is evidence to support the idea that an agency problem precluded other groups from offering viable alternatives to the conversion plan. In other words, Pool management applied coercive pressures that limited the information and decision-making options available to Pool board members and delegates, thereby securing an identification with management's preferred course of action – a strategy of mimetic adaptation.

In January 1994, the board of directors was presented with a plan that outlined four options as to how the SWP could prepare the organization for changes to the external environment while addressing its looming horizon problem (Fulton and Lang, 2006, p. 10). Although the board selected and eventually implemented the A-B share conversion option, Fulton and Lang state that “[e]vidence from their interviews indicates that a number of people believed that the board did not seriously consider other options that would have allowed the SWP to retain more of its co-op structure,” including an option that proposed bundling the Pool's non-grain handling assets into a separate entity and making that public (2006, p. 10). They state:

Some interviewees felt that senior management and some of the board had decided that equity conversion was the way to go and that little effort was

made to examine other options – i.e., “some of the options put on the table were no more than ‘straw men’ that could be knocked down.” (Fulton and Lang, 2006, p. 10)

It is important to understand that executives at the Pool had their own motives for pursuing the share conversion plan. Pool executives wanted the organization to become a top player in the North American marketplace. They wanted to be another Cargill (White, 2003 February 13), and converting the co-op to a publicly-traded organization with international investments would not only enable a corporate culture but also present an image of professionalization that perhaps the Pool executives believed was missing with the organization structured as a co-operative.<sup>6</sup> Accordingly, they realized that converting the organization from a co-operative to a publicly traded organization would provide management with more decision-making control and influence over the organization. This was especially important for top managers at the SWP, as there were concerns that the organization was operating too slowly. Lang states, “[t]here was a concern that decisions were being made on “Pool time” instead of “real time” and the democratic process made decision-making too slow” (2006, p. 124). According to Lang, Loewen was instrumental in changing the organizational culture from a slow-moving farmer-oriented culture to an aggressive corporate-oriented culture. Management also realized that by shedding the co-operative structure that the wages paid to top managers would increase to reflect the wages earned by their counterparts working for organizations of similar size and profitability. For instance, Lang indicates that “[p]rior to the share conversion CEO Don Loewen was earning an estimated \$244,571 and at the time of his resignation he was earning \$423,684” (2006, p. 134). Certainly, the personal economic benefits that management anticipated to receive as a result of conversion would have influenced their identification with a more IOF-like organizational structure.

The criticism that the SWP management did not provide viable or well-researched options suggests that there were information asymmetries between the management and the board. These information asymmetries were in part a result of a legacy of trust that

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<sup>6</sup> For instance, Lang (2006) indicates that the SWP’s dual head structure was eliminated in 1996 so that the Pool’s governance structure would be more in line with other corporations traded on the TSE. The dual head structure consisted of the CEO and a Corporate Secretary responsible for Policy and Membership Services, both positions reporting to the board of directors. With the Corporate Secretary position eliminated, Loewen’s power and influence in the organization increased.

the board had developed with the previous CEO, Milt Fair, and his cadre of senior managers, which was passed on to Fair's replacement, Don Loewen. Moreover, the presence of these information asymmetries suggest that Pool management was not interested in pursuing any viable options that might potentially undermine their own objectives, and as such deliberately created information asymmetries between the management and the board.

Further, the decision by the Pool not to pursue any other potential options to deal with the looming horizon problem was in part a result of the fallout from its previous negotiations with the federal government on the issue of the Crow Rate benefit. During those negotiations, the Pool was instrumental in working with Ottawa on a new deal for Saskatchewan producers. In calculating its response to the Crow Rate challenge, the Pool had to balance its obligation to represent its members' interest while maintaining its commercial interests in a strong grain transportation system. As Fairbairn states:

If the Pool had been only a policy organization, it would have had far less incentive to take a responsible approach to modernizing the grain transportation system. If it had been only a commercial organization, it would have had less reason to fight for key safeguards for farmers and its recommendations would have been less trusted by farmers (1984, p. 232).

Importantly, the Crow Rate challenge indicated to the Pool the direction that the federal government wanted to take the industry. This was an important lesson for the Pool. However, there were other important lessons that this experience taught the organization. The Crow Rate challenge struck a blow to the association side of the SWP. Groups like the National Farmers Union were upset that the Pool would even negotiate the Crow Rate with the federal government, while other groups like the Canadian Cattlemen's Association, the Prairie Farm Commodity Coalition, and the United Grain Growers wanted the Crow subsidy to be paid to farmers and not the railways (Lang and Fulton 2004). Since most farmers in Saskatchewan were Pool members, Lang and Fulton indicate that the opposition created by the SWP's handling of the Crow debate "reduced the likelihood that some of these farmers would deliver grain to the Pool" (2004, p. 244). These negotiations had demonstrated to the Pool that their membership was too heterogeneous for the organization to satisfy the memberships' diverging goals, and that the costs associated with representing Saskatchewan producers on policy issues were high. This realization enabled management to adopt a much more commercial oriented

position towards the regulatory changes occurring in the marketplace, as it provided management with further reason to put the interests of management ahead of the members' interests.

Another factor contributing to information asymmetries between the board and the management was the lack of knowledgeable and trained board members. Senior managers and board members interviewed by Lang (2006) indicate that this was a problem post-conversion, and it is likely that these problems were in place prior to conversion. Lang states:

As one senior manager commented, the Board seemed to be missing the “cynical eye on the thing that you really need”. An individual who “wasn't afraid to ask you the simple hard questions”; it would “force you to think it through and come better prepared” with proposals. (2006, p. 131)

And,

Some senior managers said “there wasn't the person [on the Board] who would do the homework” because for board members it was “stepping way beyond your comfort zone” and “when it came to managing an entity that was worth close to a billion dollars in assets they were a little out of their league.” (2006, p. 132)

Although the lack of general criticism from the board was in part a result of a trusting relationship between the board and the management, the comments of senior managers indicate that the board lacked the knowledge and training to do the work effectively; as a result an agency problem was likely present during the conversion stage as well.

The urgency with which the share conversion plan was chosen and implemented also suggests that an agency problem was active. By March 1994, information packages presenting a one-sided pro-conversion message had been mailed out to farmer members. In the three months that followed, a series of information sessions were held in communities across the province where board members and management argued the case for the share conversion.

In some of these information sessions members and delegates that disagreed with the share conversion plan did express their opposition to the plan and argued that the share conversion plan should be put to the members in a vote. They believed that a vote on conversion should be put to the approximately 85,000 Pool members, rather than the 142 member delegates whose responsibility it was to vote on the issue. Pool officials stated that the members would not vote on the share conversion plan, as the Pool's bylaws

required that only the delegates vote on the plan. However, delegate Stewart Wells of Swift Current argued that the bylaws did not preclude members from voting (Ewins, 1994 June 9), and that if they did delegates could amend the bylaws to allow members to vote (Ewins, 1994 June 16). For the most part, these criticisms were largely ignored.

Although most of the opposition to the share conversion plan came from a very small but vocal group of delegates that included Wells, there were other delegates that reluctantly supported the share conversion. They went along with the plan because they believed there was no other option for the co-operative. The view that there were no viable alternatives to conversion suggests that like the board, the delegates' decision-making was restricted by information asymmetries from Pool management.

As well, many delegates supported the idea simply because they stood to gain substantial capital from the conversion of member equity to publicly traded shares. This was especially attractive to members that did not want to wait until they were retired to receive their equity return, and for those members that were struggling with farm debt. The looming horizon problem appears to have provided Pool executives with a justification to pursue a share conversion plan that would restructure the organization in a way that would provide management with more decision-making control and power. In cunning form, senior managers were able to use the trust and confidence that they had inherited from the previous management team to convince the board that the proposed share conversion plan was the best option for the organization. They were also able to exploit their position in the organization to create information asymmetries to diminish the perception that there were other viable options apart from conversion.

#### **6.4. Summary**

Like other mature co-operatives operating in the North American agricultural sector, the SWP identified with and imitated the behaviour of its IOF competitors as changes to the regulatory environment and its member demographics were perceived as threats to the organization's survival. Some industry analysts have suggested that the Pool's IOF-like behaviour goes as far back as the Pool's 1972 take-over of Federal Grain (see Driver, 2001). However, the Pool's leadership during the 1980s Crow Rate negotiations indicate that the Pool was still a farmer-oriented and driven co-operative that was concerned with not only its welfare but also the welfare of its producer-members. In the years that

followed, coercive pressures from the state and international trade agencies continued to influence the agri-food sector in Canada. A decade later and under new leadership, the Pool did not resist the coercive pressures of the state and market as it had previously. The Pool's cognitive model had been influenced by discourses of market determinism (i.e., that deregulation and competition were inevitable), as a result Pool management believed that the organization had to become more like its IOF competitors in order to survive the changes occurring in the marketplace.

The Pool also had internal problems that needed to be resolved. On the membership side there was a looming horizon problem that threatened to impede the organization's growth and competitiveness. While the Pool entertained notions of merging with the other prairie pools, the management culture at the SWP preferred to set the organization's course. This individualistic, go-it-alone logic of the Pool was in part an outcome of what Lang (2006) and others have identified as a measure of arrogance among SWP management. This arrogance stemmed from an emboldened recognition of its position as the dominant player in the Western Canadian grain handling sector, and a potential rival to ADM, ConAgra, and Cargill in the international marketplace. The Pool's individualistic logic and managerial arrogance contributed to a principal-agent problem that effectively narrowed the range of options that Pool board members and delegates were given in order to select a strategic course for the organization. By narrowing the range of potential options that were available to its members, Pool management was able to secure the outcome – a shift in organizational form – that they preferred.

The Pool's conversion from a co-operative to a publicly traded organization marked a shift away from the organizational form and logic of the co-op toward an identification with the logic and form of the IOF. This shift in property rights structure provided the Pool with the investment capital that it needed to imitate the strategies and behaviours of the large multinational agri-businesses that dominated the North American marketplace. The Pool's aggressive investment scheme burdened the organization in debt, and with declining market share the organization needed to once again restructure itself in order to survive. In doing so, the Pool continued to identify with the individualist logic of the IOF, completing its transition to a publicly traded IOF in 2005. While the

Pool continues to be an important player in the Saskatchewan grain handling industry, it no longer serves as a voice for Saskatchewan farmers.

### **6.5 Denouement**

The final chapter in the history of the SWP was played out in 2007. Beginning on 9 May 2007, the SWP formally entered into an acquisition agreement with Agricore United (AU), with the AU agreeing to support the Pool's bid for the company (SWP, Third Quarter Press Release, 11 June 2007). The acquisition ended a lengthy bidding war between the SWP and James Richardson International (JRI) for control of AU and its assets. The acquisition (re)solidified the Pool's position as the dominant player in the Western Canadian grain handling sector. The SWP boasted that the "new company will be the largest employer in the sector in Canada with approximately \$4 billion in revenue.... [and] operate 276 agri-product sites from Manitoba to the Peace River District in British Columbia" (SWP, June 2007, p. 2 – 3).

On 30 August 2007, it was announced that Viterra would be the name given to the company formed by the merger of the SWP and AU (Briere, K., 6 September 2007, p. 3). The decision to rename the company Viterra suggests that Pool officials viewed the acquisition as an opportunity to shed the organization of its remaining association with its previous incarnation as a co-operative organization and its connection to the province of Saskatchewan. As such, the renaming signaled a counter-identification (a rejection) with the co-operative logic – as suggested by the "Pool" name and its association to the idea of grain "pooling" – and identity of the former organization as it was intended to move the "company beyond the past, particularly for those who might find it hard to let go of either of the two parent companies" (Briere, K., 6 September 2007, p. 3).

## Chapter 7: Conclusion

The purpose of this thesis was to develop a framework for analyzing decision-making behaviour in organizations that can be used to examine two issues important to organizational decision-makers: the choice of organizational form, and the decision to shift an organization's behaviour and form. This thesis integrated the contributions of various and competing approaches and perspectives from the area of organizational studies to develop a relational model that explains decision-making in terms of an organization's identification with dominant organizational logic and property rights conception of society. For the purposes of this thesis, the scope of the analysis was limited to the study of decision-making behaviour in the co-operative organization.

This thesis argued that the choice of the co-operative form dis-identifies (*works on and against*) the dominant property rights conception of society – property as a *private* institution and a *right to exclude* – as it enables an alternative conception of property as common institution that includes a *right not to be excluded* from the use or benefits of a resource. Profiles of the formation of the SCWS and the CCRL were used to illustrate that the choice of the co-operative form is often the result of a dis-identification with the dominant organizational logics and property rights conception of society. These profiles indicate that in some instances co-operators must also *work on and against* the dominant logics and conceptions of the co-operative form in order to achieve their objectives.

This thesis also argued that the tendency for some co-operatives to imitate the behaviour and form of IOFs is the result of isomorphic pressures that shift the cognitive models of the co-op's managers, board and/or members toward an identification with the dominant property rights conception of society. Internal problems like principal-agent, free-riding, and influence-cost problems are especially troublesome as they can exacerbate exogenous pressures leading the organization toward an identification with the logic and property-rights structure of the IOF. As such, this thesis indicated that as co-operatives identify with the IOF form they begin to adopt new strategies that can be used



to diversify operations and expand into new markets, and/or create efficiencies and consolidate operations. Some of these strategies include: initiating joint-ventures with other co-ops or IOFs, making member shares transferable, acquiring new investment capital by making provisions for non-member investment or by converting member equity to share equity. The profile of the Saskatchewan Wheat Pool illustrates that many of these strategies were precursors to that co-operative's conversion to an IOF.

While the analytical framework developed in this thesis focused specifically on the decision-making behaviour of co-operative organizations, this framework can also be applied to the analysis of decision-making behaviour in IOFs, SOEs, non-profits, and other organizational forms, groups, networks, and associations. The ability of the framework to interpret the effects of isomorphic pressures on the property rights of various groups within the organization is of particular importance to the analysis of decision-making behaviour in complex organizations. For instance, the adoption of new information or communication technologies by an organization can either extend or exclude rights to access or use the service of that technology to certain organizational members, thereby creating new roles and processes that will influence the cognitive model, coordination and culture of the organization.

### **7.1. Contributions to future research in the area of organizational studies**

The conceptual framework developed in this thesis was used to analyze why individuals choose co-operatives rather than other organizational forms, and why some co-operatives choose later in their organizational life to imitate the behaviour and organizational structure of IOFs. Given the pluralistic design and limited application of the framework in this thesis, there is considerable room to build and apply the framework to the study of decision-making in co-operatives and other organizational forms. With respect to the study of co-operatives, some areas that might be further studied or elaborated upon include: the role of the member in the governance structures of co-operative organizations; the influences of information and communication technologies in member engagement; the influences of co-operative organizations on IOFs and SOEs; the study of leadership in co-operative organizations; and the influences of social cohesion and member engagement on organizational innovation.

In a broader sense, this thesis has raised a number of issues relevant to the area of organizational studies. It has complicated the debate surrounding individualist and collectivist understandings of the organization (see Reed 2006) in terms of how the organization is conceived, structured, and positioned in relation to other organizational forms. This thesis has argued that the property rights structure of the co-operative organization enables individuals to realize autonomy from exclusion, and do so by working collectively in a way that precludes paternalistic interventions from the state or from some other institution. Moreover, as it positions the co-operative form as a dis-identification with both the individualist and collectivist logics of the dominant organizational forms in society, it challenges organizational theorists to rethink (*work on and against*) dualistic conceptions of the organization and group behaviour.

This thesis has also integrated the cognitive and structural aspects of the organization – i.e., linking identification with the co-operative form to rights to use or access commonly held assets. The analysis thus provides a lens for analyzing organizational decision-making that highlights or integrates conceptions of the organization as an agent from those that position the organization as a structure (see Reed 2006). By highlighting the significance of both endogenous and exogenous factors on the cognitive model of the organization and its members, this thesis attempts to reconcile the competing reductionist and determinist perspectives associated with notions of the organization as either an agent or a structure, respectively.

Further, the framework proposed in this thesis has the potential to be used to analyze decision-making in IOFs, SOEs, and non-profits. There is also the potential to apply to the framework to decision-making in networks and in other systems, such as communities and nation-states. Moreover, the ideas and critiques of other perspectives (i.e., organizational ecology) can be integrated into the conceptual framework so as to further explore and develop other factors that might be integral to the analysis of group or organizational decision-making.

## **7.2. Linkages to on-going and future research on the social economy and the role of social cohesion in the co-operative organization**

Much of the thinking about this thesis has been shaped by the ideas and work of scholars studying the role of co-operatives in the social economy and issues of social cohesion

among co-operatives and their members. This thesis has important applications for scholars interested in these issues.

### ***7.2.1. The social economy***

This thesis contributes to scholarship in the social economy. The framework developed in this thesis provides a lens for examining and evaluating the composition of the social economy. It also provides a tool for analyzing the formation and organizational behaviour of social economy organizations. The framework considers how identification with a particular cognitive model or property rights structure might influence the way that these organizations respond to endogenous and exogenous pressures, both in terms of how members of social economy organizations interact with their particular organization, and how social economy organizations interact with each other and other organizational forms. In this way, the framework can be used to both anticipate and illustrate the effects of endogenous and exogenous pressures on social economy organizations.

While this thesis did not explore the isomorphic effects of social economy organizations on co-operatives (or, co-operatives on other social economy organizations), it could be assumed that isomorphic pressures from social economy organizations would promote/maintain a mode of dis-identification among co-op members, managers, and board. On the one hand, the profile of the CCRL's early formation provides some insight as to how social economy organizations might work together to foster and create new social innovations. On the other hand, the profile of the SCWS illustrates how organizational competitiveness among co-operatives or social economy organizations might hinder the ability of these organizations to create new social innovations.

### ***7.2.2. Social cohesion***

A practical concern for many co-operatives is how to build strong cohesive organizations while maintaining an identification with the co-operative form and movement. In the co-operative organization, social cohesion is often closely connected to an identification with the goals and objectives of that organization, and/or a shared identity based on a common bond or mutual interest. However, as this thesis has indicated an over-identification with a specific co-operative organization can hinder identification with a more broad and encompassing logic of co-operation that is supportive of developing co-

operation among co-operatives, and a co-operative or social economy movement. In this way, a tension exists between an individual or group identification with a specific co-operative organization, and a more general identification with a “helping ourselves” logic of the co-operative organization. Balancing these potentially complementary identifications is integral to understanding how co-operatives or other organizations might foster social cohesion among both their members and other organizations. Educating co-op members and employees about the role that their organization and co-operatives, in general, have in the development of the social economy is potentially one way that co-ops can ensure organizational identification at both the macro and micro levels. In this way, co-operatives can build on their history of community participation and involvement by engaging their members in ways that reinforce their sense of ownership and control in their communities and community-based organizations.

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