

Reviews – Polemics

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Michał Pietrzak:
FENOMEN SPÓŁDZIELNI ROLNIKÓW.
POMIĘDZY RYNKIEM, HIERARCHIĄ I KLANEM
(THE PHENOMENON OF THE FARMERS' COOPERATIVE.
BETWEEN RISK, HIERARCHY AND CLAN)

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I was pleased to read the monograph, which in its title includes cooperatives that lie in my scope of research interest. Unfortunately, the group of theoreticians focusing their studies on various issues related to group form of management is narrowing.

In the Polish economic reality after 1989, many cooperative entities collapsed. It became clear that there is a significant decline in their number, participation in general employment or the creation of national income. Also in reference to the country and agriculture, the position of cooperatives significantly diminished (apart from dairy cooperatives).

One should agree with opinions that on the threshold of political transformation, many individuals from the strong membership community (over 15 million) did not identify themselves with the cooperative movement. The meaning of the functioning of the group form of management was misrepresented. Meanwhile, researchers of the cooperative movement and persons practically engaged therein adopted that in Poland already since the beginning of political changes, i.e. since 1989, the ongoing democratisation of the country, the development of pluralism in political life and in the sphere of ideology as well as shifting to the market economy should have generated such a system of norms and rules which would provide the functioning of entities with various forms

of management in the changed economic realities. Thus, the occurrence of favourable conditions was expected for further development of the cooperative movement, restoring the balance between the social and economic part of the cooperative movement, revival of the genuine cooperative ownership as well as revealing its potential advantages and opportunities or even the phenomena of some of its forms (cooperatives of farmers) used in the reviewed paper. Unfortunately, the above-mentioned collapse of many cooperatives is not reflected in their revival in subsequent years of the functioning of the market economy in Poland despite of the fact that it falls within the pro-cooperative policy of the European Union. After all, the ideas of the cooperative movement and its values indicate that it is an alternative to the profit oriented commercial economy because in its essence it is pro-social and ethical in reference to finances. These characteristics cause that the cooperative movement is the sphere of economy which is close to many people, it can prevent the social exclusion, create a sense of security and stabilisation, generate opportunities for professional and social activity. Many prominent individuals – both secular and clerical – appreciated that and engaged in the development of the group form of management.

The collapse of many cooperatives taking place in the economic reality in Poland directly corresponds to the literature devoted to the issues related to the group management which is scarcer and scarcer on the publishing market. Therefore, the paper entitled *The phenomenon of the farmers' cooperative. Between risk, hierarchy and clan* by Pietrzak deserves appreciation. Thus, the considerations focus on economic entities listed in the title, interpreted by the Author as “cooperatives providing farmers with agricultural production resources (including also those which manufacture such resources), cooperatives related to the sale of products manufactured by farmers as well as the agricultural and food processing industry”. The scope of work does not include the agricultural production cooperatives, groups of agricultural producers or cooperative banks servicing the sector of agriculture. The inference in this paper to a varying degree refers also to all group management entities.

The word *phenomenon* in the title was given a double meaning by the Author, treating it as a subject of cognition and as a unique occurrence. “Cooperatives are the phenomenon observed by economists in various areas of economy, including agriculture. On the other hand, cooperatives are also the phenomenon in that sense that they are a different, unique form of carrying out activity...” – as it was rightly pointed out on page 10.

Considerations were embedded into a few contemporary mainstreams of economic thinking – neoclassical economy, new institutional economy, theory of systems, theory of organisation. These mainstream concepts were presented in detail in the paper. I will write about them in the further parts of the review. At this point, I would like to emphasize, agreeing with Pietrzak's opinion that in the literature there is no “... as wide as possible perspective of the cooperative phenomenon in the context of leading economic theories...” (p. 17). Hence, the monograph – as the Author indicates – “... strives at filling in this gap”.

The reviewed paper is of overview and conceptual nature. It is mostly based on the literature review referring mainly to the above-mentioned mainstreams of economic thinking as well as discussion related thereto which has numerous cognitive values. The presentation of the Author's own conceptions and studies is also important.

I assess the bibliography of the monograph as rich, up to date and well selected. It includes 505 positions in total, mainly in the form of books, articles in scientific journals, Internet publications. English language publications (208) constitute over 55%. The Author developed and incorporated 21 tables and 54 charts into his paper. They became the subject of analysis as well as the illustration of the surveyed phenomena, serving for a better understanding of findings included in its text.

The reviewed monograph has 392 pages in total; thus, it has a very large volume. Its content was presented in 10 chapters grouped into 3 parts. Apart from that, the paper contains Introduction and Final Theses; there is also Bibliography as well as a List of tables and figures.

In *Introduction*, the Author convincingly explained the concepts of phenomenon and cooperative, peculiarities of agricultural production in the context of agrarian issue and its manifestations or the problem of the “market treadmill”. Furthermore, he presented broad considerations on the state intervention policy towards agriculture. Striving for the assumed purpose of the book, which has been already mentioned above, i.e. “... as wide as possible perspective of the farmers’ cooperative as an economic phenomena – which would take into consideration contemporary key directions of economic thoughts...”, the Author formulated a number of research questions – 18 to be exact. They concerned, inter alia, optimisation of the cooperative’s objectives in the context of the comparison to capitalist companies, treating it as the institution of coordination, a hybrid perspective of the researched form of management, interpretation of its ownership, the essence as a system, organisation and, what is important, in the context of considerations – perspectives of the further development of the farmers’ cooperative. Having read the paper, one can conclude that the asked research questions are characterised by a large coherence, logic – answers in the synthetic form were incorporated into Final Theses closing the monograph. The important remark at the end of Introduction, which I completely support, is the following: “contemporary challenges for the sector of agribusiness may interrupt ... the existence and efficient functioning of the cooperative”.

Part One of the reviewed paper entitled *Cooperative of farmers in a neoclassical perspective* consists of two chapters. *The first one entitled The traditional theory of a company vs the essence and functioning of the farmers’ cooperative* focuses on the early trends in the studies concerning the cooperative and the dispute related to the problem: what a cooperative is for farmers – extension of their economic activity or a separate enterprise. The author showed that the second interpretation currently plays a leading role in the neoclassical approach to studies concerning the farmers’ cooperative. He did it by the presentation of interesting considerations based on, *inter alia*, theories of leading theorists focusing on agricultural economy and their discussion concerning the perception of cooperatives. The strengths of considerations depicted in the discussed chapters include its summary which is at the same time, the introduction to further considerations.

Chapter 2 of the first part of the monograph entitled *Neoclassical models of the cooperative vs benefits for farmers and economic well-being* focuses mainly on the interpretation related to the essence of neoclassical model of the cooperative on the example of the cooperative providing their members with fertilisers. Such an example is very desired in the paper, because it shows, *inter alia*, the direct correlation between the presented theories and the practice of economic life.

Considerations on pp. 60-75, related to specific objectives of the cooperative in the neoclassical theory of the company, should be assessed as interesting. The author distinguished 5 objectives looking for their optimality. The optimum of cooperatives linked to each of the distinguished objectives was also represented graphically, which made the author's argumentation clearer and increased the perceptive abilities of readers. The analysis conducted on the above-mentioned pages was referred to a short period of time; in the further part it was researched and thoroughly interpreted how a long period, i.e. the period in which the stability of at least one factor of production ceases to apply, affects the solutions related to the various objectives of the cooperative.

The discussed chapter ends with the interesting summary of the subjective content of Point 2 of the monograph, introducing the reader into another stage of considerations. The Author argues, inter alia, that in order to understand the phenomena of the farmers' cooperative it is necessary to "...Reject the vision of the cooperative as a neoclassical enterprise ... Viewing farmers' cooperatives as institutions will be helpful in this regard...".

The second part of the paper entitled *Farmers' cooperatives in the view of the new institutional economy* contains as many as 6 chapters and has as many as 148 pages. Chapter 3, opening this part, constitutes the introduction to further considerations. It discusses the origin and development of the new institutional economy, its creators and their diversified theories as well as key concepts for the depicted mainstream of economic studies, i.e. institutions, transactions, contracts and transaction costs were widely presented. It is a very good text. Table 4 displaying "Selected manners of understanding institutions in various mainstreams of economic thinking" is particularly impressive. However, there emerges the issue related to the volume of this text in relation to the title of the monograph, in particular to the farmers' cooperative.

I think that the Author, taking into consideration the diversified group of readers, less or more informed about the institutional economy, incorporated the introduction to this economy, its subsoil, as he wrote, which was supported by findings and citations of its leading creators. It can be presumed that these considerations, although they do not directly correspond to the title and the adopted purpose of the monograph, may become helpful for the reader in the perception of the studied text. I would like to refer similar remarks to the findings presented in the next chapter. On pages 125-139 we can find a very good text devoted to the transaction coordination manners, including hybrid ones. Nevertheless, it may be asked to what extent such deepened and interesting findings are linked to the title of the monograph. Only partially, which is proven by the content of Point 4.3 entitled: *Cooperatives as a hybrid form of management*. Obviously, I treat the above remarks as debatable.

Returning to the content of Chapter 3, I would like to highlight the interesting summary at its end which focuses on North's branch and Williamson's branch in the new institutional economy.

In Chapter 4 entitled *Farmers' cooperatives – a hybrid institution of coordination*, which I have already mentioned above, the author shows cooperatives in the categories of hybrids, treating them as economic innovations oriented towards the reduction in transactions. The considerations concerning this topic in Point 4.3. are very interesting, as they rely on the well selected literature and the Author's fascinating reflections related to, inter alia, the hybridity of cooperatives as their phenomena and the form of the vertical quasi-integration.

In the next Chapter 5, in reference to the above-mentioned vertical integration, starts with Point 5.1. entitled *Vertical integration as an alternative for the market contracting* by the discussion justifying its occurrence in agriculture, based on the works by Perry, Hansmann, Joskow and Williamson. Furthermore, the considerations in subsequent parts of the discussed chapter, which focus on issues related to an “ordinary” market power and monopoly power resulting from the fundamental transformation linked to investments in specific assets, deserve a positive assessment. The essence of this specificity was presented, as well as the specificity of their location and time-related specificity of assets in agriculture (a lot of these specificities!!!), the Author’s commentary which is important in cognitive terms and well-selected examples explaining the above-mentioned specificity of location (the farmer – dairy), generated by a limited mobility of agricultural holdings and processing plants in the context of high costs. As a consequence, it was proved that farmers may experience a market failure of various types and associating in cooperatives may help them in dealing with difficulties arising therefrom.

In order to boost knowledge about the need for the existence of cooperatives, the Author proposed (in the next Chapter 6) to study special features of the cooperative ownership compared to other types of ownership and next – in Chapter 7 – to have a close look at costs arising from incomplete ownership powers as well as problems related to co-operation and separation of ownership powers (Chapter 8).

The above-mentioned Chapter 6 *The farmers’ cooperative – a hybrid form of ownership* tackles the issue which is important for the farmers’ cooperative – the peculiarity of possession in the cooperative. The considerations concerning this peculiarity presenting it as a hybrid of private and joint ownership turned out to be very interesting. This opinion is strongly supported by materials displayed in Table 6 and 7. The first shows the cooperative ownership compared to the ownership in various types of the company (civil company, joint-stock company with concentrated equity, listed company) in a curious substantive form, in the context of various ownership limitations. As far as Table 7 is concerned, it clearly presents problems related to the specificity of ownership in the cooperative (problems of: horizon, free rider, collective decision making, agency, portfolio). Points concerning ownership rights (6.2., 6.3., 6.4.) in the discussed chapter may be treated as substantively correct but – in my opinion – they are a little bit verbose.

Chapter 7 is a continuation, an elaboration on the discussion concerning the specificity of having a cooperative in the context of costs arising from incomplete ownership powers – related to the problem of horizon and the free rider problem. The title of the Chapter is formulated as follows: *The peculiarity of farmers’ cooperatives in the context of problems arising from the limitation of completeness of ownership powers*.

In the discussed Chapter, the Author presents various issues concerning the problem of horizon. I must admit that my sceptical view to the example which he used – interpreting its essence on the former Yugoslav economy – was significantly neutralised by further considerations linking the above-mentioned problem to farmers’ cooperatives. He proved, inter alia, that “disability of the cooperative due to the problem of horizon may be smaller than you might think in the situation in which the private ownership is idealised”. In the next subpoint he draws attention to social aspects characterising the cooperative, which also have their “price”. If it is low – it will play a significant role in the taken economic decisions and vice versa. Another issue linked to the problem of horizon,

which merits attention, concerns the heterogeneity of the cooperative. The inference on the example of dairy cooperatives proved that the settlement between the current and postponed benefits is a key decision of the cooperative members. Chart 41 depicts issues related to possible capital accumulation paths and creating current benefits for members.

Incomplete ownership powers and costs related therein were also reflected in Point 7.2. On the background of the discussion presented by the author which refers to the problem of free-riding and free riders, the internal and external point of view concerning the joint ownership was highlighted. Basing on the rich and well selected literature, in the further considerations pertaining to the above-mentioned issue, the Author discussed the role of the state intervention and privatisation in its neutralization. At the same time, he paid attention to and presented models of “tragedy of commons” and “the prisoner’s dilemma” in an interesting manner which, as he has rightfully pointed out, display important issues of many various situations, the common denominator of which may be the identified free rider problem. The summary of the Chapter deserves a very positive, substantive assessment.

In the next Chapter *The peculiarity of the farmers’ cooperative in the context of problems arising from sharing and separation of ownership powers* a number of issues, which are key for the cooperative movement, were discussed in a substantively interesting manner. First of all, the discussion covered the problem of collective decision making, supported by a meaningful example (Table 11) of members with various preferences on investment decisions and consequences of their choice; hence, one should agree with the Author’s opinion that there is no ideal mechanism allowing for a summary of preferences in the democratic voting within a cooperative. In Point 8.2, focusing on the agency on the basis of the extensive use of references to the literature, the Author proved that costs of agency may be a serious problem in cooperatives; nevertheless, in some cases of farmers’ cooperatives they are at a low level.

In the ending point to the discussed chapter, devoted to the problem of portfolio, i.e. the risk (generally speaking) of the owner related to the implementation of investment, in the light of interesting considerations related to this topic, presented in the reviewed paper, one should agree with the Author that the problem of portfolio “...may actually seriously disable farmers’ cooperatives... but this does not happens ex definitione, but in specific cases”. The summary belongs to the strengths of this Chapter.

Part Three of the reviewed paper entitled *Cooperative of farmers in a systemic perspective* consists of two chapters. The first one is to show farmers’ cooperatives as the system of coordination and its internal structure. The interesting considerations referred to the surveyed cooperatives were presented on the basis of Kornai’s findings (Point 10.2.) in relation to the real and regulation sphere in the economy, transferred to agricultural holdings and enterprises buying agricultural products or selling production resources. The effect of these considerations is Figure 44 depicting the structure of cooperatives as the system based on horizontal and vertical quasi-integration – on the basis of dairy sector; it is, as it has been described by the Author – the *sensu largo* cooperative. In Point 9.7. the *sensu largo* cooperative was discussed as the steering system, for the functioning of which the size of membership base is of major importance. The view on the cooperative enabled the Author to make a wider conceptualisation of cooperatives –

as hybrids characterised by three coordination mechanisms: market, bureaucracy and clan. However, the last mechanism is key in small cooperatives.

Chapter 10 entitled *The cooperative as an organisation in the quasi-stationary balance – in relation to adaptation challenges* contains, according to the title, the view on the cooperative as a organisation which is a conscious, intentional system of cooperation between agricultural holdings and a profit-making enterprise established by the members. This system, as the Author rightly demonstrates, is connected by the organisational balance which has a quasi-stationary nature. Thus, the system of relations between participants as well as between them and the organisational environment is permanent and it changes only within specified limits. The Author showed in an interesting manner that the contemporary appearing and deepening challenges for the cooperative movement – the pressure of surrounding on improving the profit-making enterprise, the increase in the number of members and consequences arising therefrom – may interrupt the above-mentioned balance guaranteeing the existence and efficient functioning of the cooperative. They face, as the Author argued, with the need or even the necessity of adaptation to multi-directional pressures generated by the environment and, at the same time, the maintenance of their social roots.

The monograph is ended by *Final Theses* containing the main ascertainments presented in an interesting and convincing manner and organising fundamental plots of the reviewed monograph as well as highlighting the most important findings and conclusions. I agree with the Author that the presented final theses bring a number of further research questions and I totally share the expressed hope that problems raised therein will be discussed or continued, while the content of the monograph will be a leaven of discussion on farmers' cooperatives or the cooperative movement in general. Such a discussion is not only necessary on all accounts but even essential in Poland.

Concluding, I would like to emphasize that the reviewed book is a piercing study devoted to the cooperative movement of farmers which convince readers that it can be treated as an economic phenomena. This is an original paper, wrote on the basis of the well selected foreign and national literature as well as the Author's deep reflections. The assumed purpose of the monograph based on the contemporary key directions of economic thought was fully achieved.

One must agree with the Author that many issues discussed in this reviewed monograph to a lesser or greater extent concern also the cooperative movement functioning outside agriculture.

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