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Member preference heterogeneity and system-lifeworld dichotomy in cooperatives

Member preference heterogeneity

An exploratory case study

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Abstract

Purpose – The purpose of this paper is to shed new light on the issue of preference heterogeneity in cooperatives.

Design/methodology/approach – Drawing on the ideas of Habermas and Luhmann, this paper interprets preference heterogeneity of cooperative members in terms of the precarious relationship between the categories of “system” and “lifeworld.” The argument is buttressed with a case study of an agricultural cooperative recently founded in Central Greece.

Findings – The sensitivity of cooperatives to the lifeworld contexts of their members exacts the price in the form of the member preference heterogeneity problem. If this sensitivity is taken to be the constitutive characteristic of cooperatives, then the proposed argument hammers home their fundamental ambivalence, as they are necessarily fraught with the potential for internal conflict.

Research limitations/implications – The paper urges for a radical rethinking of Georg Draheim’s thesis of the “double nature” of cooperatives. “Double nature” is shown to aggravate the member preference heterogeneity problem.

Practical implications – The results of this study inform the cooperative leaders’ quest to strike a balance between the interests of their members and the demands of the external socio-economic environment.

Originality/value – This research contributes significantly to the literature on collective decision-making costs incurred by cooperatives. The failure of cooperatives to balance the sensitivity to members’ interests and to the external environment is exposed as the root cause of the divergence and heterogeneity of member preferences. This heterogeneity is shown to boost collective decision-making costs.

Keywords Greece, Systems, Collective action, Risk, Governance, Ownership

Paper type Research paper

All over the world, cooperatively owned businesses are common in diverse industries (International Co-operative Alliance, 2015). In agriculture and food industries, cooperatives play an indispensable role in almost all agriculturally advanced countries (Bijman *et al.*, 2012). A commonly acknowledged source of competitive advantage of cooperatives over investor-oriented firms is the homogeneity of interests of cooperative members (Hansmann, 1996). The assumptions of the homogeneity of member interests, as well as of a high level of trust among members, constitute the traditional view of cooperatives as effective instruments of collective action (e.g. Nourse, 1922; Helmberger and Hoos, 1962; Valentinov, 2007). The problem with the traditional view is that the reality is much more complex. In the real



world, the interests, needs, and preferences of members often exhibit substantial heterogeneity, which poses serious challenges to the competitiveness of cooperative organizations. This is reflected in the major efforts undertaken by cooperative business leaders during the last 25 years. Such efforts focused on the adoption of organizational changes to address some of the major challenges facing organizations characterized by highly heterogeneous member preferences (e.g. Cook and Iliopoulos, 2016).

The existing research suggests that heterogeneity of members' preferences may adversely affect investment behavior, collective decision-making costs, and member commitment, thus increasing the probability of organizational degeneration (Hansmann, 1996; Chaddad and Cook, 2004, 2007; Iliopoulos and Hendrikse, 2009). These patterns seem to be robust across numerous institutional settings. For example, in Ethiopia, agricultural marketing cooperatives that admitted new members with highly diverging preferences tended to disintegrate (Bernard and Spielman, 2009). In North America, the collapse of the successful consumer cooperative in Berkeley, California, has been attributed by more than 14 experts to the ever-increasing levels of member preference heterogeneity (Fullerton, 1992). Similar devastating outcomes have been observed in European countries and Japan where various types of cooperatives have had a hard time adjusting their organizational model to the diverging preferences of member patrons (Garrido, 2007; Battilani and Schröter, 2012). Conversely, when cooperatives manage to adopt an organizational design that minimizes intra-organizational conflicts arising from the divergence of member preferences, their success has been tremendous (e.g. Bhuyan and Leistriz, 2001; Bijman *et al.*, 2012).

Why do the preferences of cooperative members often diverge to such an extent as to thwart the competitive advantage of the cooperatively owned business? The present paper addresses this fundamental question by drawing on the social philosophy of Jürgen Habermas and Niklas Luhmann, prominent contemporary German Philosophers. One of their key themes has been the precarious relationship between what they called "the system" and "the lifeworld," i.e., the relationship allowing pinning down the ambivalence as well as the pathologies of modernity. Of relevance to the cooperative context is the idea of uniqueness of the lifeworlds of cooperative members. This uniqueness is shown to lie at the heart of the high heterogeneity of member preferences with regard to risk and investment, as well as with regard to members' ability and willingness to participate in the entrepreneurial choices of the cooperative. Another key contention is that the sensitivity to the lifeworld is a crucial attribute of cooperatives that is implicated, for example, in Draheim's (1955) thesis of their 'double nature' as their key difference from investor-oriented firms. From this perspective, the emergence of new cooperative models around the globe can be interpreted as the ongoing attempt of cooperative organizations to balance their sensitivity to member lifeworld against their sensitivity to the market environment (Thompson and Valentinov, 2017).

The concept of sensitivity is by no means alien to the context of the investor-owned firms, which are forced by competitive forces to be sensitive and responsive to the needs of their customers (cf. Goldhar and Lei, 1995). Paralleling the concept of the cooperative "double nature," management scholars increasingly turn attention to the "organizational empathy" in the for-profit commercial world (cf. Lei and Greer, 2003). Catering to the unique emotional needs of their customers, "empathetic firms" seek to attain competitive advantage by steering the sense-making processes and appropriating the tacit knowledge implicit in the customer responses to the firms' production and sales strategies (McGill *et al.*, 1992). Treating each customer as a source of valuable organizational knowledge certainly poses high requirements to the level of trust and cognitive affinity in the firm-customer interactions (cf. Lei and Greer, 2003). Furthermore, decades ago, Chester Barnard (1968, p. 92) advanced the notion of the "organizational equilibrium" that

underscored the need for the firm to be sensitive to the psychological and social needs and motivations of its employees, whose “personal contributions of energy” are critically required for the firm’s survival. Yet, for all its advantages, the “organizational empathy” in the for-profit sector comes at a cost. It may make the “empathetic” investor-owned firms vulnerable because of its inconsistency with “any form of sustained price-based competition” (Lei and Greer, 2003, p. 160). In addition, the firm’s intention to learn and absorb tacit knowledge of highly heterogeneous stakeholders poses nontrivial management challenges (Lei *et al.*, 1997).

The main interest of the present paper is in the effects of the “organizational empathy” in cooperatives. Drawing on the theoretical concepts of the lifeworld and cooperative “double nature, the paper features an exploratory case study of NewCo[1], a multipurpose agricultural cooperative, which was recently founded by 33 farmers in Central Greece. The cooperative coordinates its farmer members, bargains with processors acting as their representative, sells their produce under its brand, and buys inputs on their behalf. Currently the cooperative has 65 members, mainly producers of durum wheat, cotton, legumes, and garlic. The case study shows that these members exhibit substantial preference heterogeneity regarding NewCo’s entrepreneurial choices and that this heterogeneity is linked with the members’ unique lifeworld contexts.

The paper is organized as follows. The following section draws upon the ideas of Habermas and Luhmann, and especially the system-lifeworld dichotomy framework, in order to develop a novel theoretical understanding of the social group identity of cooperatives. The subsequent sections bring this framework to bear on the heterogeneity of member preferences, illustrate the argument on the example of the NewCo case study, and draw implications for cooperative scholarship and management.

Rethinking the “double nature” of cooperatives

The lifeworld perspective

Cooperative scholars acknowledge that there exists a sense in which cooperative organizations are supposed to combine economic and social identities. In the history of cooperative thought, the double nature of cooperatives has been prominently put forward by Georg Draheim, cooperative Scholar and Leader. In his (1955) book, Draheim argued that cooperatives simultaneously present a social group and a joint enterprise owned and governed by the group members. Holger Bonus (1986), another prominent German Cooperative Scholar, drew upon Draheim’s double nature thesis to explain the nature of unique cooperative advantages. Bonus (1986) argued that cooperative members can harness “trust as a productive resource” (p. 321) in order to internalize “crucial transactions into a firm jointly owned by the holders of transaction-specific resources, who thereby avoid potential threats to the quasi-rent of their investment by outside opportunists” (p. 335).

If there is a sense in which cooperatives present a social group, they must be sensitive to the lifeworld of their members. The lifeworld category occupies pride of place in the work of Jürgen Habermas who understands it as “the informal and unmarketized domains of social life” (Finlayson, 2005, p. 51) that “provide a repository of shared meanings and understandings” (Finlayson, 2005, p. 51 *et seq.*). Crucially, lifeworld contains “the stock of skills, competences and knowledge that ordinary members of society use, in order to negotiate their way through everyday life, to interact with other people, and ultimately to create and maintain social relationships” (Edgar, 2006, p. 89). It is the sensitivity of cooperatives to the members’ lifeworld that allows them to build their social group identity in such a way as to take advantage of “trust as a productive resource” (Bonus, 1986, p. 321). The lifeworld category underscores the fact that trust may be utilized as a productive resource to the extent that the members draw upon their communicative competence in order to reach mutual understanding.

The system-lifeworld dichotomy

While illuminating the internal mechanism of the “double nature” of cooperatives, the lifeworld category draws attention to its potential limitations that go back to the system-lifeworld dichotomy, another Habermasian concept. In a nutshell, the system can be understood as “sedimented structures and established patterns of instrumental action” (Finlayson, 2005, p. 53). The system and the lifeworld rely on distinctly different mechanisms of social and functional coordination, thus rendering inadequate the possible “identification of society with the lifeworld” (Habermas, 1987, p. 150) in the lifeworld perception of individuals. Even though some individuals may indeed believe in this identification, “their goal-directed actions are coordinated not only through processes of reaching understanding, but also through functional interconnections that are not intended by them and are usually not even perceived within the horizon of everyday experience” (Habermas, 1987). Unintentional and counter-intuitive “functional interconnections,” to Habermas, constitute the functional coordination, whereas the lifeworld is coordinated through “reaching understanding.”

The functional and social coordination are equivalent in that they present “responses to the same problem: the contingency of social relations that arises with the rationalization of the lifeworld” (Baxter, 1987, p. 54). This equivalence is however asymmetric. As the complexity of society progressively grows, social coordination “becomes increasingly difficult. Under these conditions, systems such as the economy and the state administration ease the burden that falls to communication and discourse” (Finlayson, 2005, p. 54) that are constitutive of the lifeworld. The problem is though that the system may “colonize” the lifeworld (Habermas, 1987; Finlayson, 2005; Magala, 2009, p. 138), in the sense that “the former tends to encroach upon, to displace and even destroy the latter” (Finlayson, 2005, p. 56). In cooperatives, the straightforward effect of the systemic colonialization of the lifeworld will be the breakdown of communication among cooperative members. To the extent that this happens, cooperatives are likely to suffer from the widely discussed collective action dilemmas such as the free-rider problem, internal opportunism, member apathy and alienation, and lack of trust and social capital (cf. Iliopoulos, 2014).

Implications for intra-cooperative communication

Generally, the growing complexity of modern societies and the concomitant rise of systemic integration have far-reaching implications for social communication: they involve the reliance on non-linguistic steering media, such as money and power, which “replace mutual understanding in language” (Habermas, 1987, p. 262). Hove (2008, p. 243) argues that “by replacing understanding, steering media can facilitate cooperative social action in situations where achieving linguistic agreement would be either unnecessary or burdensome.” It is clear, however, that in cooperatives, the linguistic agreement is necessitated by their “double nature,” for mutual understanding among cooperative members cannot but rest on their personal communication with each other. Furthermore, if the cooperative is to pursue a consistent, long-term business strategy, this communication must be highly effective. How will the likelihood of successful intra-cooperative communication be affected by the fact that the “double nature” of cooperatives implies their heightened sensitivity to the members’ lifeworld?

On the one hand, to the extent that the lifeworld provides “a repository of shared meanings and understandings” (Finlayson, 2005, p. 51 *et seq.*) which mobilize the communicative competence (Edgar, 2006, p. 89) of cooperative members, it may indeed make such a communication successful. This, however, is not necessarily the whole truth about the lifeworld. Niklas Luhmann (1986), another prominent German Social Theorist and an opponent of Jürgen Habermas, pointed out the polycontextuality of the individual lifeworlds as well as their contingency on unique observer positions. As Kneer and Nassehi (2000, p. 143) put it, Luhmann’s argument implies that “my lifeworld is not your lifeworld.”

Hence, from the Luhmannian perspective, the sensitivity to the members' lifeworld may expose cooperatives to the problem of member heterogeneity and pave the way for the heterogeneity-induced conflicts among members.

The conflicts need not be fatal though; in theory at least, they can be resolved through moral discourse, which presents the main theme of the Habermasian discourse ethics. Not only does discourse ethics "presuppose that moral judgments can be justified through the argument" (Edgar, 2006, p. 46), it is also fully conscious of the fact that "the participants in moral discourse are not purely rational beings, but rather real humans, who are shaped as concrete personalities by their personal experiences and their upbringing. It is precisely the concreteness and diversity of these personal experiences... and needs that makes practical discourse worthwhile" (Edgar, 2006). If expressed through common cultural values, individual experiences, needs, and interests potentially give rise to moral reasons, i.e., contributions to moral discourse (Rehg, 1994, p. 50). To the extent that the discourse succeeds in the generation of valid moral norms, it can resolve the conflicts between the discrepant needs and interests of participating cooperative members. Regh (1994, p. 99) explains the conflict resolution potential as follows: "if my pursuit of my own good depends on certain rules obligating your cooperation [...], then I can only get you to accept such rules rationally insofar as a I can adduce arguments you find convincing. But, unless we happily agree on conceptions of the good, such arguments can only appeal to the generalizable reasons, i.e., moral reasons."

"The happy agreement on conceptions of the good" is precisely what is rendered unlikely by the member heterogeneity problem. By engendering interest conflicts, this problem calls for moral discourse. It is clear that this discourse presents an example of social, rather than functional, coordination, and is aimed at achieving "mutual understanding in language" (Habermas, 1987, p. 262). In cooperatives, however, the ultimate object of this understanding is the business strategy, which presents a systemic concern calling for functional coordination. The "double nature" of cooperatives thus turns out to be a device for harnessing the lifeworld resources for the resolution of systemic concerns. It follows from the system-lifeworld dichotomy that this constellation may result not only in the lifeworld being overburdened but also colonized. In this case, moral discourse will hardly eventuate in mutual understanding, even though this outcome cannot be precluded in real life. It is worth recalling, however, that contrary to Habermas, Luhmann in principle did not believe in the problem-solving potential of moral, which he saw to be framed by expressions of respect or contempt for individual persons. To Luhmann (1993, p. 445), the person-centeredness of moral communication is out of synch with the systemic nature of the most modern social problems.

While being open-ended with regard to the outcome of specific moral discourse processes, this theoretical framework does allow to differentiate between two domains of the intra-cooperative communication. In one domain, individual members narrate their life stories and appeal to what they perceived to be common values in order to make their lifeworld circumstances understandable to other members. On this basis, they justify their individual preferences and interests in planning the cooperative strategy. Yet, to the extent that the preferences of different members are heterogeneous, these individual justification attempts likely result in disagreements and conflicts. In the other domain, members engage in moral discourse intended to resolve these disagreements and conflicts on the basis of moral norms. Specific moral arguments may or may not be convincing. Moreover, as Luhmann (1993, p. 368) believed, some moral arguments can even be dysfunctional and provoke conflict (cf. Kneer and Nassehi, 2000, p. 181). Hielscher *et al.* (2016) attribute special conflict potential to those moral arguments that are perceived to be cynic, i.e., sacrificing the common good to the individual self-interest, and moralistic, i.e., imposing the visions of the common good without regard to their incentive compatibility.

The case study of a Greek agricultural cooperative

Methodology

This study follows the case study methodology as authoritatively laid out by Yin (2014), with the case study object being NewCo, an agricultural cooperative based in Central Greece. The case study methodology was chosen for two reasons. The first reason is related to the explorative nature of the research question and the dearth of theoretical and empirical research on heterogeneity of member preferences in cooperatives. The second reason arises out of the present paper's interest in the intra-cooperative communication. As Flyvbjerg (2006, p. 237) explained, "case studies often contain a substantial element of narrative. Good narratives typically approach the complexities and contradictions in real life. Accordingly, such narratives may be difficult or impossible to summarize into neat scientific formulae, general propositions, and theories." Given that the papers seeks to make sense of the contradictions and complexities of the narratives told by individual cooperative members, the case study methodology turned out to be highly appropriate.

In terms of data collection, 22 interviews were conducted with 11 informants, namely the chairman, three board members, the managing director, a junior member of the executive team, three members, and two local farmers who are not members of the group. Interviews were conducted face-to-face according to a semi-structured discussion guide, from October 2014-2015. Each interview lasted from 45 to 130 minutes while all interviews were recorded and fully transcribed. Several follow-up interviews were conducted to clarify answers. By spending time in the field, collecting extensive data, and by engaging in three workshops organized by the cooperative on leadership and strategy issues we gained an insider perspective. Secondary data sources were also utilized, including NewCo's bylaws, various industry analyses, and academic articles. The qualitative research design was adopted because of its effectiveness in inquiring about sensitive issues such as conflict (Mouly and Sankaran, 1997).

Data analysis

The analysis is based on the transcribed interviews and workshop discussions. We used coding software to screen and sort the abovementioned texts in order to identify the parts of the text that needed to be interpreted in detail. Subsequently, we interpreted the data and identified narrations about key aspects and dimensions of member preference heterogeneity, conflict, types of communication, and rhetorical strategies. In this way, we were able to shed light on the links between communication breakdown and conflict. The narrative analysis was preceded by a thorough analysis of the context within which NewCo and its members are active. Disciplining ourselves to avoid judging on the basis of our own theoretical assumptions proved to be a challenge but we addressed it. By comparing different sources of data, we managed to increase the dependability of our results. Two independent researchers with different backgrounds screened our findings for inconsistencies or other problems to increase their confirmability.

Case overview

NewCo was formed in February 2013 by 30 farmers. Currently it has 65 members who cultivate cereals, cotton, animal feed crops, and garlic. NewCo is a multipurpose, open membership cooperative that provides its producer-members with bargaining, input procurement, marketing, information provision, soil analysis, and consulting services. NewCo represents both a typical and a remarkable case. It is typical because many cooperatives during the last decades have faced similar challenges associated with an increasing level of member heterogeneity (e.g. Chaddad and Cook, 2004). Further, as a multipurpose cooperative, NewCo is constituted by a complex system of dense relationships and interconnected, albeit sometimes

conflicting, objective functions. Consequently, it represents a rich context for exploring different lifeworld contexts and heterogeneous preferences.

NewCo is remarkable because it emerged in a country where agricultural cooperatives, wrongly or not, appear in the minds of most farmers as a failed, rotten business institution that oscillates between the inefficient state and the corrupt cooperative leadership (Iliopoulos and Valentinov, 2012). However, as shown next, the extant member preference heterogeneity does make it challenging for cooperative managers to identify and pursue a balanced business strategy.

Findings

During our participation in the workshops organized by the case study cooperative, the question that repeatedly emerged was related to dealing with conflicting interests and preferences of the members. Despite the fact that the cooperative was founded only a few years ago, its rapid expansion into many different products, and the inclusion of member farms associated with increasingly divergent lifeworlds has resulted in high heterogeneity of member preferences. The lack of a clear mission and a coherent strategic plan is the result but also the igniting factor for further communication breakdown. While it was clear to most of the interviewees that immediate action is needed to avoid degeneration, their opinions differed about what that action should be or how it should be implemented.

During the interviews and workshops, we identified two subgroups of members. The first of these subgroups includes most, but not all, board members and a core of members that adopt a primarily entrepreneurial approach to farming, they push the cooperative to invest in value-added activities and make amendments to bylaws so that individualized ownership of the cooperative business is allowed. The stories narrated by these members exemplify their lifeworld. One board member stated, “Unlike old cooperatives, we focus on creating added value at all levels,” while a member uttered, “I am a fourth generation farmer and I am convinced that only through cooperation each of us can increase his income under the current economic circumstances.”

The second subgroup views the cooperative primarily as a self-help, democratic organization that combats the “bad guys,” they care only about farming and not about “selling or marketing,” and they prefer collective ownership of the cooperative’s assets. The life stories narrated by the members of this group differ substantially from those of the first one. One member stated, “I care about my family and my farm. I am not a seller or a marketing guy. All I want to do is produce [...] the rest is the job of the cooperative, I am not an entrepreneur.” The underlying values of this group are also illustrated in the response of one member to a related interview question: “The garlic harvester was bought for garlic producers but all members contributed. Tomorrow we, the vegetable guys, will need a packaging plant and all members will contribute to that as well.”

Some members, however, possess characteristics of both of these groups. For example, one farmer member views NewCo as a way to invest in value-added products but prefers the cooperative to maintain its collective ownership approach. Another member views the cooperative as a service provider but due to the big size of his farm, prefers to market its produce himself.

Contexts as sources of heterogeneity and conflict. With respect to an enabling environment for cooperation, NewCo and its farmer members operate in a highly controversial, if not hostile, macroeconomic, political, socio-economic, and cultural context. The seven years of economic crisis had repercussions throughout the economy, with small businesses being particularly affected by the degeneration pressures. On the other hand, since the first cooperative law was passed in 1914, successive governments have consistently failed to create a stable, efficient, and flexible legal and institutional environment for agricultural cooperatives (Iliopoulos and Valentinov, 2012). As a result, the failure of many agricultural

cooperatives in the past decades and the association of cooperatives, in the mind of the public, with corruption and inefficiency have resulted in their negative public image, comparable to the popular perceptions of cooperatives in the Eastern and Central European countries with a communist history. This context makes for an interesting albeit extremely challenging environment for the development of agricultural cooperatives.

The structural characteristics of members' farms differ significantly along several key dimensions, including farm size, number and type of products and farming, succession plans, and access to debt capital. For example, in vegetable production, one member accounts for almost 60 percent of the output handled by NewCo. Most member farms cultivate more than one crop but not all members cultivate the same crops. Those focusing, more or less, on a single crop, tend to have higher investment in the farm, are risk takers and may have direct access even to export markets. Some members have sons and daughters that will take over the farm when their parents retire, while others plan to sell or rent the farm to a non-family member. In addition to these structural differences, members also exhibit dissimilarities with respect to demographic characteristics (e.g. educational level), and past experiences with agricultural cooperatives (positive or negative). All these parameters tend to increase membership heterogeneity. This is done primarily through their impact on the transactional relationship between the cooperative and each member and thus the incentives facing each member. This is the case in many multipurpose and multi-product cooperatives around the world (Iliopoulos, 2014). A member explained how she felt the impact of the resulting member preference heterogeneity:

I cannot accept that the co-op charges me the same as my neighbor who delivers only one third of what I deliver. And when we need to accelerate and invest in the [processing] plant, he says, "better no."

Similarly, another member stated, "M. is a part-time farmer and sees farm income as an addition to what he receives from the school where he teaches. This is why he rejects almost every investment project. All he cares is a fair price plus subsidies, nothing else."

The management is in a constant battle to balance these highly varying preferences. A junior management member mentioned characteristically in an interview, "it is young versus old, large versus small, full-timers versus part-timers, garlic versus cotton or wheat. There must be a way out of this chaos."

Complexity, communication, and collective action dilemmas. Initially, at the pre-formation phase of NewCo's life cycle, the need to attract members made the founders sensitive to the lifeworlds of local farmers. This sensitivity provided access to a significant repository of shared meanings and understandings that facilitated communication among members and between founders and potential members. As the cooperative progressed into subsequent phases of its life cycle, and more members were admitted, new lines of products and service offerings were developed. Consequently, intra-cooperative complexity increased and led members to realize that "my lifeworld is not your lifeworld" (Kneer and Nassehi, 2000, p. 143). As pointed out by one board member, "I like cooperation, I have been a member of cooperatives all my adult life. But, there must be common goals for the cooperative to work smoothly. Otherwise it is a pain in the neck."

One major consequence of this realization was the problems experienced in communicating strategic and operational decisions to members. Nearly no interviewee could state clearly the reasons that led to the establishment of NewCo. After numerous interviews, we came to infer that the reason was twofold: first, to minimize production costs for members' farms; and second, increase members' bargaining power *vis-à-vis* input sellers and buyers of their products. Although the founding members had realized the need to act collectively, when asked to clarify how many members would be ready to invest time and money in the cooperative, most responses were similar: "not all members agree [...] we think that, sooner or later, they will realize what NewCo is doing for them." The values of the

founding members were closer to the values of traditional agricultural cooperatives worldwide (e.g. self-help, democracy, cooperation among cooperatives, service at cost) rather than to those of new forms of cooperatives such as new generation cooperatives (e.g. efficiency, investor-reward in addition to patronage-reward). This gap has resulted in, among other things, major communication challenges.

Communication breakdown is manifested into collective action dilemmas such as free riding, member apathy, and investment portfolio and horizon problems facing NewCo. Numerous statements by members, board members, and even outsiders converge on the pervasiveness of these dilemmas in the everyday life of the cooperative. For example, one board member proclaimed:

What are you talking about? Out of the five board members, sometimes only three participate in the monthly meetings. It is not only members that are in need of cooperative education, board members also need to go through training.

One member stated, "We have all agreed to buy fertilizers from the co-op but some members prefer to pay more and buy from their cousins or nephews who have private businesses." Another member mentioned, "Why do I need to invest in a vegetable packaging plant? I have only cotton and wheat and don't plan to switch to vegetables." Yet another member said, "My son leaves in Athens where he works as a university professor. He has no intention of becoming a farmer, so I see no need for me to invest all these money in bread and vegetable outlets. I will retire in five years and will get nothing out of it."

A non-member farmer stated, "Why should I join them? Cooperatives are a failure in this country, we cannot cooperate [...] see what NewCo is doing. They start with an idea and then switch to exactly the opposite. How can you trust them?"

Addressing these issues becomes even more difficult due to the aforementioned communication disruptions that make coordination extremely burdensome. The two aforementioned subgroups of members tend to move toward opposite directions as signified by the following quote from an interview with a board member: "Maybe we should have not accepted all these new members. Maybe we need to enforce some rules here and let only those that follow the rules to stay as members; the rest can leave."

Moral communication and values as sources of conflict. As new members entered the cooperative and preference heterogeneity increased significantly, agreeing on what is the best way forward became a nontrivial issue. Mission vagueness was identified even during the first couple of interviews with board members and employees of NewCo. The discrepancies between members' perceptions of NewCo's past are reinforced by their disagreements over the optimal business strategy in the present. Arising out of the discrepant lifeworld contexts, these disagreements emerged repeatedly during the interviews:

[NewCo] has to invest in a processing plant and bypass pasta industries.

No plant can save us [...] New members, we need to find new members to increase our power.

Given that member investment in the cooperative is done on the non-proportional basis, these disagreements led to a conflict in 2015 when the cooperative invested in a garlic harvester and members who do not produce garlic where asked to contribute capital as well. Against this backdrop, it is unsurprising that the current members are continually engaged in the adjustment of the cooperative bylaws. Communication between the cooperative (as represented by the chairman of the board and management) and members, as well as among subgroups of members takes place through moral discourse. Some of the arguments used or goals pursued by these subgroups include dysfunctional moralistic elements. For example, some board members see as desirable to impose the visions of the board on membership. Another relevant example is the motto underlying most of the board's actions, namely, that efficiency is more

important than member service. The chairman of the board clarified that “by this we mean that without being efficient, competition will force us out of the market and thus we will not be able to serve our members.” Yet, this argument has been perceived as moralistic and, as a result, has provoked conflict as revealed by one interviewee who stated, “The co-op is for service to members, not for investor-type-of efficiency. Period.”

The two subgroups of members use common but also different rhetorical strategies to convince each other. Management and most board members attempt to communicate their underlying cultural values of strategic business management, efficiency, equitability, no free lunch, competition, and collectively supported individualism through logos and ethos (Baron, 2003). The second subgroup struggle to communicate its own cultural values, which includes self-help, democracy, volunteerism, equality, cross-subsidization, safety, and collectivism, through logos and pathos (Baron, 2003).

The present goals of the cooperative are mainly defensive, in the sense that they refer to the protection of farmer income at the farm gate level. However the board is currently considering investments in offensive strategies of vertical integration (i.e. retail shops and an input production plant). Members are divided over the need to invest in vertical integration. Even within the board, there is no unanimous view of the issue. Those members whose primary profession is farming are more or less willing to invest in a processing plant or in developing a more vertically integrated farm input line of business, as long as the investment makes economic sense. Other members, who derive their income predominantly from other sectors of the economy, are reluctant to invest in any type of business even remotely related to farming. Here, the primary relevant type of preference heterogeneity is related to risk preferences and has been likely aggravated by the board’s decision to admit new farmer members with a view to promote rapid business expansion. The pressure exercised by some board members on other board members, and members in general, to support such investments is testing their relationships of kin and friendship. Further, according to one board member:

If we had more members we would have more bargaining power [...] contract ag is helping a lot but, still, if you do not have strong bargaining power you cannot offer real service to members [...].

Another board member mentioned, “See what the BaCo-op[2] did. We can do the same in vegetables and maybe in wheat.”

It seems clear that the discrepancies between members’ lifeworld contexts and the resulting heterogeneity of member preferences make NewCo’s strategic goals quite vague. Their clarification seems necessary before the board can move convincingly toward the future. Such necessity is obvious first of all within the board, since some of its members do not attend all board meetings or, if they do, they do not share the optimism of other board members regarding the success of the aforementioned strategic choices.

Due to the current economic crisis in Greece, goal clarification and strategic decisions have become even more complicated. Under these circumstances, even functional coordination, which Habermas assumed to be easier than social coordination, is difficult to achieve. In view of cooperatives’ double nature, though, NewCo is obliged to master the situation through social coordination. Furthermore, the issues addressed through social coordination are magnified by the crisis. NewCo seems to lack vital resources, such as trust and empathy, to realize effective social coordination. This lack manifests itself in the cooperative’s prolonged difficulty to reach consensus on its mission, goals, and business strategy.

Advancing cooperative theory and practice

Implications for cooperative theory

The main thrust of the modern literature on cooperatives is that Draheim’s double nature thesis holds true. This thesis is hardwired into the vision of member interest homogeneity as a

source of the competitive advantage of these organizations. Interest homogeneity is indeed the logical basis of both collective action and trust among members. To the extent that cooperatives embody collective action, they must rest on the homogeneity of interests of members who, given this homogeneity, have no strong reasons to distrust each other (Hansmann, 1996; Nourse, 1922; Helmberger and Hoos, 1962; Valentinov, 2007). In the modern parlance, the double nature thesis crops up in the acknowledged importance of social capital in cooperatives. Valentinov (2004) went so far as to refer to cooperatives as “social capital-based” organizations; Feng *et al.* (2016) and Nilsson *et al.* (2012) lament the ongoing diminution of social capital in cooperatives that grow and become more competitive.

Theoretical arguments and empirical evidence presented here pose a challenge to this state of the art. Interpreting the double nature thesis in terms of the systems-lifeworld dichotomy, the paper has shown double nature to be inherently ambivalent and conflict-provoking. The central problem with double nature is that the requisite social capital and lifeworld resources may simply be unavailable. Furthermore, if liberal philosophers, such as Rawls (1993), are correct in assuming the pluralistic nature of the modern society, then the case for the availability of the common values and mutual sympathies on the part of cooperative members becomes even more uncertain. This uncertainty is, of course, additional to the widely documented “downsides” of social capital (Portes, 2014). Even Valentinov (2004) notes that the lack of social capital will make “social capital-based” organizations costly to govern. Furthermore, double nature makes itself apparent in the proliferation of moral communication, which, to Luhmann, has a high chance of being dysfunctional. Whether or not Luhmann was right, emotional and moralizing rhetoric is known to be a reliable empirical indicator of what is called discourse failures (Hielscher *et al.*, 2016).

The impact of the proposed theoretical arguments and empirical evidence on the scholarly field of cooperative studies can be projected as twofold. First, this paper drives home the point that the double nature thesis is partially premodern, for this thesis accepts specific socio-economic problems as unresolvable within the prevailing formal institutions and thus needful of informal institutions implicated in trust (Bonus, 1986), social capital (Feng *et al.*, 2016; Nilsson *et al.*, 2012; Valentinov, 2004), or lifeworld. The modern worldview would not deny that specific problems stretch the limits of the extant formal institutions but would locate the relevant primary challenge in conducting institutional reforms rather than in supporting cooperatives *per se*. Second, the double nature thesis assigns a major role to the emotional feelings of cooperative members and thus concurs with the person-centered utilitarian thinking in the assumption that subjective perceptions should provide legitimacy and guidance to social decision making. John Dewey (1929) has long noted that the guidance by emotional perceptions may indicate the substitution of imaginary well-being for the real problem solving. Critical institutional economists, such as Clarence Ayres (1961), hold that “feelings are illusory” (p. 53) for they tend to merely reflect the current institutional structure while downplaying the potential for the genuine institutional reform.

Both of these impacts boil down to reorienting the field of cooperative studies from the paradigm of individual ethics to that of institutional ethics (Pies *et al.*, 2014; Hielscher *et al.*, 2012). While individual ethics would recommend strengthening the moral character of cooperative members with a view to improving the cooperative social capital and harmonizing members’ lifeworlds, institutional ethics advocated here pleads for minimizing the moral burden that must be carried by individuals, and for shifting the problem-solving processes from the lifeworld to the system. It is clear that shifting requires the reforms in cooperative governance rather than the proliferation of moral(istic) communication.

Implications for cooperative practice

In practical terms, the uniqueness and contingency of member lifeworlds translate directly into the heterogeneity of member preferences. This will be true even if the structural

characteristics of member businesses are similar. The way this heterogeneity is dealt with has a major impact on the ability of members to collaborate, as well as on the longevity of their cooperative (Food and Agriculture Organization of the United Nations, 1996; Bogetoft and Olesen, 2003; McKee, 2007; Staatz, 1987a; Rathbone and Davidson, 1995). Table I summarizes the essential dimensions of member preference heterogeneity. At the bottom, each of these dimensions is conditioned by discrepancies between the lifeworld contexts of individual members, and indicates the type of conflict that might emerge between them. If these conflicts are not addressed properly, the resulting fractions and factions may lead to significant turbulence and, finally, bring about organizational degeneration (Cook and Iliopoulos, 2016; Rapoport and Weiss, 2003). Furthermore, as cooperatives grow to become successful business entities of considerable size, member heterogeneity is likely to increase for reasons related to disproportionate allocations of member equity, patron drift, membership growth, and diversification (Cook and Burrell, 2009).

From the practical point of view, it is worth noting that, in principle, member preference heterogeneity may play a positive role too. Up to a point, a fruitful combination of members' preferences may result in "co-initiating" and "co-creating" a promising future for all cooperative members (Scharmer, 2009). The identification of this point is admittedly tricky (cf. Pelled *et al.*, 1999). What is more important though is that once this point is reached, the benefits of diverse preferences gradually disappear and an overwhelming tendency toward uncontrollable conflict sets in. Many cooperative organizations seem to stay for quite some time at exactly this point that, from a systemic point of view, might be called "the edge of chaos."

Yet, the case study has shown that the sensitivity of cooperatives to member lifeworld may undermine their sensitivity to their market environment. Balancing these two types of sensitivity seems essential for improving a cooperative's longevity prospects. One can imagine settings where achieving this balance is quite difficult (e.g. Hart and Moore, 2005) or made impossible by intervening factors, such as environmental disasters, wars, economic depression, stock market collapses (cf. Waddock *et al.*, 2015), competition from substitute organizations and products, and increasing bargaining power of business partners. These factors may also include intra-cooperative forces, such as ill-diagnosed problems and time lags in taking relevant action. The presented case study accentuates the second group of factors and nourishes the suspicion that the desire to expand rapidly into new business domains may mask the lack of a clearly defined mission and strategic vision.

A further remarkable implication of the case study is that the mounting divergence of member preferences is by no means confined to older cooperatives (e.g. Cook and Burrell, 2009).

Dimension	Selected sources
Collective and individual risk assumed	Hansmann (1996), Bogetoft and Olesen (2007)
Types of investments pursued	Vitaliano (1983), Staatz (1987b), Cook and Iliopoulos (2000)
Types of strategies (<i>e.g.</i> defensive vs offensive) and strategic goals pursued	Cook (1995), Cook and Iliopoulos (2000)
Degree and ways of member involvement in governance	Hansmann (1996), Chaddad and Iliopoulos (2013)
Timing and volume of patronage refund pay-out	Staatz (1987b), Hansmann (1996), Iliopoulos (2014)
Location of processing plants and other business units	Hetherington (1991), Plunkett <i>et al.</i> (2010)
Leadership legacy (type and strength)	Cook (1994)
Pooling system adopted	Buccola and Subaeis (1983); Hetherington (1991)
Equity appreciation/depreciation mechanisms implemented	Cook (1995), Cook and Iliopoulos (1998), Holland and King (2004)

Table I.
Dimensions of
member preferences

Consequently, cooperative leaders need to be aware of this and inform their members about the need to design the ownership and governance structures of their organizations so as to avoid excessive tinkering in the future. This is all the more important, given that members tend to be exclusively occupied with operational problems. The failure to design effective organizational solutions at the right time may be very costly (e.g. Hendrikse and Feng, 2013).

Designing organizational solutions present those institutional reforms that the institutional ethics paradigm would prioritize over mor(alistic) communication aimed at improving social capital (Valentinov, 2004; Feng *et al.*, 2016; Nilsson *et al.*, 2012). Cooperative scholars have developed three broad solutions of this kind: user alignment, member retention, and transparency. The user alignment solution modifies the ownership structure of the cooperative in order to encourage each member-patron to contribute to the cooperative in proportion to the benefits s/he receives (Cook and Iliopoulos, 2016). The adoption of proportional voting schemes or the issuance of transferable and appreciable delivery rights fall under this rubric. The member retention solution refers to organizational policies intended to increase members' loyalty to the cooperative (Fulton, 1999). The introduction of member relations programs during the last decades is a case in point. Finally, the transparency solution encompasses mechanisms designed to allow member patrons to choose their preferred level of risk, to measure cooperative performance, and/or to enable them to monitor management more efficiently (Cook and Iliopoulos, 1998). The adoption of separate capital, governance, and risk pools is one of the ways that cooperatives have adopted in implementing this solution. Each of these solutions is entirely compatible with the goal of improving the cooperative social capital (Valentinov, 2004; Feng *et al.*, 2016; Nilsson *et al.*, 2012). In fact, they reduce the moral burden to be carried by individual cooperative members and thus weaken the strain on their lifeworld resources. The essential point though is social capital is more likely to be improved if it is not regarded as the major instrument of cooperative management.

Concluding remarks

Cooperative organizations are generally supposed to be responsive to the needs of their members in ways that cannot be imitated by investor-oriented firms. Draheim linked this responsiveness to the social group identity of these organizations. Modern social philosophy allows interpreting this responsiveness as the sensitivity to member lifeworld, thus translating Draheim's "double nature" thesis into a cooperative-specific variety of system-lifeworld dialectic. Philosophers are well aware of paradoxes and contradictions implied in this dialectic. In the cooperative context, these paradoxes and contradictions converge around the fundamental problem of member preference heterogeneity. This leads to the conclusion that member preference heterogeneity is the inevitable price to be paid for the cooperative "double nature." If the "double nature" thesis is utopian, then the proposed system-lifeworld approach brings it down to earth, or more exactly, grounds it in the pluralistic texture of the modern society (cf. Johnson, 2016).

This argument drives home the point that the problem of member preference heterogeneity is not a mere function of the cooperative life cycle. NewCo is a very young cooperative, but even so, it is still rooted in the modern society, which is pluralistic and heterogeneous. It is true that NewCo would not have been created had it not been sensitive to the idiosyncratic lifeworld contexts of individual farmer members. Yet, the same sensitivity turns out to be the reason behind its present difficulties to develop a clear and coherent business strategy. Thus, if the "double nature" thesis is correct, it calls for organizational architecture which, philosophically speaking, spans the system and lifeworld dimensions of cooperative organizations. Today, this architecture encompasses a host of new cooperative models, some of which are not too distant from investor-oriented firms as basic constituents of the economic system. This proximity shows that the success of cooperatives depends on their ability to harmonize the inherently precarious system-lifeworld relation.

Notes

1. NewCo is a pseudonym to preserve anonymity.
2. Another pseudonym used in order to preserve anonymity.

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