IMPLICATIONS OF THE COOPERATIVE ORGANIZATIONAL FORM FOR VERTICAL EXPANSION

by
Jeffrey S. Royer
Department of Agricultural Economics, University of Nebraska–Lincoln, Lincoln, Nebraska, USA

Journal of Rural Cooperation, 40(2), 2012: 162-180

Abstract

This article examines the explanations that have been offered for why cooperatives have not expanded into processed product markets to a greater extent. Particular emphasis is placed on the unique organizational characteristics of cooperatives that affect their marketing and investment behavior. Topics covered include factors that may restrict cooperative access to capital, factors that may affect cooperative decisions about forward expansion, and the ability of cooperative directors to monitor activities in the later stages of the marketing channel. This article also discusses the relationship between cooperatives and risk, the extension of market risk in cooperatives, the use of unallocated reserves in accommodating risk and providing capital for vertical expansion, and cooperative strategies in interfirm consolidations and collaborations. When possible, established theories are evaluated in the context of empirical evidence or extended by recent contributions. The conclusions describe strategies that might be of benefit to cooperatives and their members.

Keywords: cooperatives, vertical expansion, organizational characteristics, equity financing