



Situation features and governance structure of farmer cooperatives in China: Does initial situation matter?

Zu-hui Huang^{a,*}, Bin Wu^b, Xu-chu Xu^b, Qiao Liang^a

^a China Academy for Rural Development, Zhejiang University, Yuhangtang Road 866, Hangzhou 310058, PR China

^b School of Humanities and Law, Hangzhou Dianzi University, Xiasha Higher Education Zone, Hangzhou 310018, PR China

ARTICLE INFO

Article history:

Received 7 July 2014

Received in revised form 16 June 2015

Accepted 1 September 2015

Available online 14 September 2015

Keywords:

Farmer cooperatives

Situation features

Governance structure

China

ABSTRACT

The paper explores the effects of situation features on the governance structure types (GSTs) of farmer cooperatives in China. The “Situation–Structure” analytical framework is used to understand the relationship between situation features and governance structures in the field of industry economics. Four categories of GSTs of cooperatives are identified, i.e., common farmer-led, rural elite-led, enterprise-led, and related organization-led. The sample comprises 266 farmer cooperatives collected via a field survey in three provinces in China. A logit probability model is applied to address the effects of various situation features on GSTs. The results reveal that both technical and institutional environments have significant effects on the governance structure of cooperatives.

© 2015 Western Social Science Association. Published by Elsevier Inc. All rights reserved.

1. Introduction

Farmer cooperatives, the oldest (such as cooperative hunting) and currently the most common form of cooperatives, play an extremely important economic and social role in both developed and developing countries. China, the country with the largest agricultural population, is not an exception. In the mid-1980s, farmer cooperative organizations began to emerge in rural China. After the 1990s, and particularly since the promulgation of the “Farmer Specialized Cooperatives Law” in 2007, farmer cooperatives entered a stage of rapid development. According to the State Administration for Industry & Commerce of China (SAIC) statistics, by the end of November 2014, China had 126.7 million specialized cooperatives and the total investment of specialized cooperatives reached 2670 billion yuan

(6 yuan \approx 1 U.S. dollar).¹ Cooperatives act as a response to the problem that arises from the dilemma between small-scale production and large markets. Cooperatives provide farmers with the supply of agricultural materials, product sales, product processing, market information, technical exchanges, and so on.

However, the level of development of farmer-specialized cooperatives in China remains low. They are now at a critical stage between genesis and development. There are problems such as pervasive small-scale, loosely structured, nonstandard governance and weak competitiveness. There are several reasons for these problems. The short history and a negative experience in the 1950s are two of them. The deep-rooted reason lies in the governance structure. Cooperatives in China have not yet determined an appropriate development model that is in line with the classic cooperative principles and simultaneously meets the specific local socioeconomic

* Corresponding author. Tel.: +86-571-88981518.

E-mail addresses: zhhuang@zju.edu.cn (Z.-h. Huang), wubin86@hdu.edu.cn (B. Wu), xxc@hdu.edu.cn (X.-c. Xu), Liangqiao2323@126.com (Q. Liang).

¹ Source of data: SAIC. See <http://www.saic.gov.cn/zwgk/tjzl/zhtj/xxzx/201412/P020141208606569816792.pdf> (accessed 02.12.14).

conditions. The core of the development model is its governance structure. The choice of governance structure types (GSTs) of cooperatives is difficult due to the variation in the rural socioeconomic and cultural conditions. As a hybrid organization that has the characteristics of both an enterprise and a community, a cooperative governance structure specifies the allocation of decision-making rights over production and operation, income rights, and members' sense of belonging (Bonus, 1986).

Although there is abundant research on cooperatives' development and governance issues, attention is rarely paid to the effects of the initial situation on the cooperative GSTs, that is, the "Situation–Structure" relationship.² The paper describes theoretically the initial situation of cooperatives in China and the choice of a governance structure. A quantitative analysis is conducted to explore the effects of the initial situation on the governance structure of farmer cooperatives in China.

2. Theory

2.1. Situation features of cooperatives

The situation features of cooperatives in this paper refer to the physical characteristics related to the external environments that cooperatives face initially. They reveal the interdependence between cooperatives and the external environment. The situation features of cooperatives can be divided into the technical environment and the institutional environment (Scott, 1992, p. 132).

2.1.1. Technical environment

In a technical environment, organizations exchange their products or services in a market such that they are rewarded for effective and efficient performance (Scott, 1992, p. 132). The technical environment includes the resource conditions, industry and product features, the state of the trading market in terms of the extent of marketization, the intensity of the market competition, the market transaction costs, and transaction features including asset specificity, natural risks and uncertainties, transaction frequency, transaction size, and transaction externalities. We believe that product features are the most important of these factors because they contribute to the emergence of cooperatives. In addition, product features are closely related to transaction costs.

Neoclassical economics theory demonstrates that if cooperatives maximize producer surplus and consumer surplus, the status of cooperative members and social welfare will also be maximized (Emelianoff, 1942; Enke, 1945; Phillips, 1953; Sexton, 1986). In contrast to the analytical framework of neoclassical economics, Coase (1937) argues that the market is not a panacea due to its running cost. He states that enterprises exist to save the market transaction costs. He maintains that an enterprise benefits when its internal cost is lower than the market cost, which is recognized as a transaction cost.

Williamson (1985a, 1985b) notes that the presence of transaction costs is determined by three factors—bounded rationality, opportunism, and asset specificity—and that the genesis of an organization depends on these three factors. Applying transaction cost theory, Staatz (1987) examines the effects of transaction costs in terms of asset specificity, uncertainty, externality, and bureaucracy on the foundation of cooperatives. The results show that a cooperative emerges when it saves transaction costs. Additionally, Zusman (1992) establishes a model regarding the screening of collective choice rules in cooperatives based on contract theory. The results present institutional and collective choices of cooperatives under insufficient information, uncertainty, bounded rationality, and the pursuit of cost minimization.

2.1.2. Institutional environment

The institutional environment is a set of fundamental political, social, and legal ground rules that govern economic and political activity (Davis & North, 1970). The institutional environment, which includes policy provision and the empowerment of property rights and rights of contract, is crucial for the foundation and development of cooperatives. In this paper, the institutional environment of cooperatives refers to all external factors—such as government regulation, laws and bylaws, administrative intervention, stakeholders, and cultural endowments—that constrain and influence the development of cooperatives. Carroll, Goodstein, and Gyenes (1988, 1990), based on an empirical study in Hungary, analyzes the effects of the institutional environment on agricultural cooperatives. They report that the organizational structure and behavior of agricultural cooperatives depend on the state's institutional structure. Fragmentation in the structure of state decision making leads to more elaborate inter-organizational networks and greater competition among organizations. With regard to the situation of China, Qiao (2009) establishes an analytical framework for the institutional environment of farmer-specialized cooperatives. It contains three dimensions of the environment: first, the economic institutional environment, including the basic economy, the market economy, and rural basic management institutions; second, the political institutional environment, including the relevant policies, the township political power, and the villagers' autonomy institution; and finally, the legal institutional environment, including the "Farmer Specialized Cooperatives Law" and other related laws and regulations. Clarifying and optimizing the institutional environment benefits the development of farmer cooperatives (Qiao, 2009). Liu (2011) examines the genesis of Chinese farmer cooperatives facing different environments by applying the Actor Network Theory (ANT). Special attention is paid to the effects of endogenous and exogenous forces on the foundation of farmer-specialized cooperatives. The results show that different regional environments play different roles, which contributes to the various development paths of cooperatives.

In addition, institutional environment can be divided into both external and internal environments. Member heterogeneity is one of the key internal environment factors.

² The complete analytical framework is "Situation–Structure–Performance (SSP)" (Schmid, 1987, p. 39).

Download English Version:

<https://daneshyari.com/en/article/139978>

Download Persian Version:

<https://daneshyari.com/article/139978>

[Daneshyari.com](https://daneshyari.com)