Economic Systems xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Economic Systems

journal homepage: www.elsevier.com/locate/ecosys

Consumer cooperatives as an alternative form of governance: The case of the broadband industry

Bert M. Sadowski

School of Innovation Sciences, Eindhoven University of Technology, Eindhoven, The Netherlands

ARTICLE INFO

Article history:
Received 1 July 2015
Received in revised form 19 April 2016
Accepted 28 April 2016

JEL classification:
P13
O32
O35
D23

Keywords:
Consumer cooperatives
Broadband Industry
Governance

ABSTRACT

With a growing number of consumer cooperatives in non-agrarian industries such as energy and broadband, there is a need to better understand their emergence as a viable form of governance. In this context, the paper uses Mikami's (2010) model on consumer cooperatives to explain their emergence as a result of their ability to generate additional equity financing through the membership market. It focuses on the motivations of consumers to financially contribute to a cooperative by examining the risks and benefits associated with the investment. Based on a survey of 759 consumers, it links their motivations for joining a cooperative to different forms of risks and benefits associated with the investment. It shows that the risks related to cost sharing and switching costs are important determinants for consumers. Other factors that affected the likelihood of joining a cooperative were expected benefits with respect to user network externalities and infrastructure gains.

© 2016 Elsevier B.V. All rights reserved.

1. Introduction

Since the launch of the initial idea of a consumer cooperative by the Rochdale Pioneers in 1844, the cooperative movement has grown rapidly over the past 170 years and currently includes more than 123 million individual member cooperators owning 160.000 co-operative enterprises and providing jobs to 5.4 million European citizens (Cooperatives Europe ASBL, 2015). In contrast to their rapid growth, the economic literature on cooperatives has – until recently – been rather scarce and still represents a neglected area of research and teaching (Kalmi, 2007).

Since its early days (Bekenstein, 1943; Enke, 1945), the theoretical debate has focused on the extent to which consumer cooperatives are a viable alternative to a profit-maximizing investor-owned firm (for a survey, see Milford, 2004, and Rey and Tirole, 2007). Research has shown that consumer cooperatives are driven by different maximizing principles (Vitaliano, 1983), ownership rights (Chaddad and Cook, 2004) and financing rules (Sexton, 1986). In responding to market power, they can contribute to greater efficiency in markets (Rey and Tirole, 2007). After years of neglect (Kalmi, 2007; LeVay, 1983), a variety of theoretical approaches have been developed focusing on the behavior of consumer cooperatives under monopoly, perfect or monopolistic competition (Anderson et al., 1979; Hart and Moore, 1996; Ireland and Law, 1983; Sexton, 1986), and, more recently, under a mixed oligopoly (Kopel and Marini, 2014; Marini and Zevi, 2011). In following Mikami's (2010) approach, the focus of this paper is on the motivations of consumers to join a cooperative, which are based on the assumption that the output of the cooperative is directly distributed to its members.

E-mail address: b.m.sadowski@tue.nl (B.M. Sadowski).

http://dx.doi.org/10.1016/j.ecosys.2016.04.004
0939-3625/© 2016 Elsevier B.V. All rights reserved.

In this context, this paper examines the idea that consumer cooperatives are set up in markets characterized by market failure in conjunction with high uncertainties and risks surrounding private investment. As has been shown (Mikami, 2010), consumer cooperatives can provide a viable alternative form of governance in such markets, since they provide additional equity financing through the membership market. However, the incentives for consumers to set up a cooperative and generate additional financing are related to the utility they can gain in terms of financial and non-financial incentives. These incentives have not yet been analyzed. This study thus examines the utility to consumers of joining a cooperative in relation to both financial and non-financial incentives.

It does so by looking at the extent to which the incentives for consumers to join a cooperative are linked to two types of risks surrounding expected cost-sharing arrangements and switching costs, as well as two types of benefits related to expected network size and direct and indirect infrastructure considerations. Cost-sharing-related incentives are important to consumers because they hold a promise in terms of future prices for the service, availability of new services, and so forth. Switching costs, on the other hand, provide disincentives for consumers. Expected user network externality benefits provide positive incentives to the extent consumers can actively become involved in the process of user-driven innovation and the development of new services. Indirect infrastructure benefits also influence consumer decisions about joining a cooperative positively.

In studying the incentives for consumers to join a cooperative, we collected data from a sample of 759 consumers through an Internet survey in a small town in the Netherlands in June 2012. The users had to decide whether or not to join a cooperative aimed at providing broadband services through a fiber network in their local community. In contrast to previous research, the model shows that the incentives identified – as existing prior to the establishment of the cooperative – better explained consumer decisions in opting for broadband networks rather than traditional market-based incentives (such as income or price).

The paper is organized as follows. First, it briefly reviews the existing economic literature on consumer cooperatives with respect to the incentives consumers might have for joining them. Second, it derives an empirical model by applying and extending Mikami's framework on consumer cooperatives (2010). Third, it examines the choice behavior of consumers in deciding in favor of (or against) joining a cooperative and characterizes the factors influencing their decision. Fourth, the paper discusses the results of the analysis, draws some conclusions with respect to managing consumer cooperatives, and characterizes some new directions for research.

2. Consumer cooperatives as an alternative governance form

2.1. Recent discussions on consumer cooperatives as a governance form

Williamson's well-known distinction between markets and hierarchies (Williamson, 1975, 1979) has not only influenced studies on (different) forms of governance (Williamson, 1996), but also, to a lesser extent, stimulated research on consumer cooperatives (Hansmann, 1996). In this tradition, consumer cooperatives are considered as a somewhat instable form of governance that nevertheless fulfils a function in markets characterized by market failure; that is, when investor-owned firms have not been able to sufficiently supply products and services (Hansmann, 1996; Mikami, 2010; Rey and Tirole, 2007). Even though investor-owned firms play an essential role in facilitating industry development and technological change in an economy, they can cause market failures in product markets. Their actions can create inefficiencies stemming from asymmetric information (Akerlof, 1970) and they are able to exercise market power over consumers (Tirole, 1990). In general, investor-owned firms might encounter problems in markets where risks and uncertainties are high and individual firms consider private investment to be inefficient.

In industries where consumers encounter such market failures and there is also high risk and uncertainty surrounding new investment, consumer cooperatives might have advantages over investor-owned firms (Mikami, 2003, 2010). In their early phase, consumer cooperatives were set up to provide market transparency and protect consumers from excessive prices by investor-owned monopolists (Hansmann, 1996; Mikami, 2003; Rey and Tirole, 2007). Recent research has shown that these cooperatives can also be important in situations where investor-owned firms fail to invest due to the associated risks and uncertainties (Mikami, 2010; Rey and Tirole, 2007). The extent to which consumer cooperatives prevail over investor-owned firms remains limited, however, with markets still dominated by the latter.

In a departure from the studies of traditional cooperatives, especially in agrarian sectors (Gijselinckx and Bussels, 2014; Hind, 1997), recent research has addressed the emergence of a "new generation" of cooperatives, a hybrid form that combines aspects of investor ownership and cooperative ownership. These new cooperatives have different characteristics compared to investor-owned firms, rooted in aspects such as mutual benefits, equal control rights, and restricted membership (Hind, 1997), and their emergence has been related to the willingness of owners and managers to take greater risks (Katz and Boland, 2002). A higher degree of risk-taking is particularly necessary in industries in which private investment is characterized by high sunk costs and uncertainties surrounding expected demand, such as broadband or energy.

Recent research by Rey and Tirole (2007) has shown that consumer cooperatives, unlike producer cooperatives, are intentionally set up by consumers to protect themselves from monopolistic behavior and manage the high risk and possible benefits of undertaking an alternative investment. If consumers believe the new undertaking will sufficiently account for

Please cite this article in press as: B.M. Sadowski, Consumer cooperatives as an alternative form of governance: The case of the broadband industry, Econ. Syst. (2016), http://dx.doi.org/10.1016/j.ecosys.2016.04.004

Download English Version:

https://daneshyari.com/en/article/5056224

Download Persian Version:

https://daneshyari.com/article/5056224

Daneshyari.com