

Why NGCs?

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There are two questions that need to be addressed: first of all, “Why a co-op?” and second, “Why a New Generation Co-op structure?”

Simply stated, a co-op is an organization in which the owners are the users and the users are the owners. For producers, the most important reason for forming a co-op is when there is something a group can accomplish that individuals cannot accomplish on their own. There must be some benefit from collective action; by producing in larger volumes, for instance, a group of farmers might be able to reduce their costs and access a different market.

A second reason for choosing a co-operative structure is when the activity a group of farmers wishes to undertake involves a highly specific asset. I will return to this later.

The third point is: choose a co-op when relationship risk is important. One of the key characteristics of any co-op is the principle of “one member, one vote.” If a group of farmers is putting money into a particular activity, the principle of “one

member, one vote” allows each participant to feel that he or she has some involvement in the organization. It is also a way of dealing with the mistrust of one another that farmers often feel. Our research has shown that it is often the case that when farmers realize that they have to do something jointly, they concurrently realize that they don’t quite trust the other parties. “One member, one vote” becomes a means of developing the trust that will be necessary to carry on the activity, because everyone knows that they will each have a say in the operation. They also realize, of course, that everyone else has a say in the operation, and the only way to make the undertaking work is if they can find consensus.

The alternative is not to form a co-op but to create a standard corporation in which voting is on the basis of investment. This can create problems of its own, as it can potentially allow a small group of people to take control based on the size of their investment. When a small group of investors wants to control a particular activity or process and brings in others simply to supply product, that is an excellent reason not to form a co-op. Any number of other organizational structures would work better. Indeed, ownership and control by a small group, with the majority of individuals in a supplemental role, is not a co-operative.

The key characteristics of a New Generation Co-operative (NGC) are: it involves some kind of processing or transformation; it has a closed membership; it requires fairly substantial investments by the members at the beginning; there is a two-way delivery right signed between the member and the co-op; and, finally, delivery rights are tradable. Producers should look at a New Generation Co-op model when a transformation of the product—whether in time, space, or form—is being carried out, and when either quality or quantity is important in this transformation.

As suggested above, one of the key questions in forming an NGC is, “Is there a highly specific asset in place, in either production or processing?” And the key question in defining a highly specific asset is, “What is the value of the asset or the investment in its next best use?” If the value is low, then the asset is specific. In

other words, if what you can get for the sale of this asset is significantly below what it cost you to purchase it, then you have a highly specific asset. One example would be a new production process that nobody else has invested in; if you invest in it and then try to resell it, you likely won't get 25¢ on the dollar. Large research and development expenditures, high advertising costs, and the purchase of specialized equipment are all examples of highly specific assets. If the co-op is going to be investing in these kinds of assets, an NGC is likely the most appropriate organizational structure.

If a group has made a substantial investment in a highly specific asset, it wants to be sure that it will receive the necessary volume of production from its farmer members in order to make the operation work. As both producer and processor, each NGC member has an incentive to provide the proper quantity and quality of product. Indeed, under the delivery contracts of the NGC model, each member is obligated to deliver the product regardless of market conditions, so that the co-op will be guaranteed a product source. The organization is thus assured that it will be able to carry on and not have to sell off its assets.

A New Generation Co-op can be formed purely for marketing purposes if two criteria are met. First, the co-op must do something that the members cannot do individually, such as supply a consistent product year-round. Second, the NGC structure must aid in undertaking the co-op activity. Does the delivery contract enhance the consistency of supply? Are quality and quantity of product critical factors in the co-op's operations? If so, the New Generation Co-op is a model for bringing those factors into the equation.

To summarize, form a co-op when a group can do something that individuals are unable to do, when input from all members of the group is important, and when one segment of the group is not looking for control. For an NGC when the investment that the group must make is highly specific, when an assured supply of product (often of a high quality) is important, and when a sense of ownership by *all* members will aid in assuring supply and in ensuring good governance of the co-op.