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Marketing cooperatives and financial structure: a transaction costs economics analysis

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Abstract

The relationship between the financial structure of a marketing cooperative (MC) and the requirement of the domination of control by the members is analysed from a transaction costs perspective. A MC receives less favourable terms on outside equity than a conventional firm because the decision power regarding new investments is not allocated to the providers of these funds. This is a serious threat to the survival of a MC in a market where efficient investments are characterised by an increasing level of asset specificity at the processing stage of production. A MC is predicted to be an efficient organisational form when the level of asset specificity at the processing stage of production is at a low or immediate level compared to the level of asset specificity at the farming stage of production.

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