

# Opportunities, Challenges and Employment Relative Advantages in the Cooperative Sector in Iran

Mohammad Reza Noruzi<sup>1</sup>

Jonathan H. Westover<sup>2</sup>

**Abstract:** Arguably, the cooperative sector is one of the most important sectors in the structure of a country and its government. Furthermore, as Iran is actively seeking to develop cooperatives in different sectors such as agricultural, construction, sales and export, cooperatives in the Iranian context are important to study. This paper aims to study the opportunities, challenges and employment advantages in the cooperative sector in Iran.

**Keywords:** Cooperative; Iran; Opportunities; Challenges

## INTRODUCTION

Changes in market conditions and competitive environment changes in the world economy have caused organizations to restructure their sales, marketing and strategic activities to manage the shifting economic conditions better (Bijman and et al, 2000). The world market for developing countries has undergone significant changes in the last couple of decades (OECD, 1997; Bigsten, 2007). Global Competition has increased, consumers have become more demanding, technology has made transport and storage more efficient and the retail business has become much more concentrated (Bijman et al, 2000).

One possible response to these global economic changes is the use of a different organizational option for firms: the cooperative. Cooperatives have unique properties, including authority and decision making rights distribution that involves management problems and transaction costs. These structures create equity rights and risk transfers that directly affect these organizations' self-management efficiency and related advantages (Neto, 2004).

This paper first discusses the history of cooperatives and then the relationship between cooperative use, economic conditions, and the structure of cooperatives. Finally, this paper looks at the decision making process of cooperatives and provides a practical guide for making a cooperative a viable organizational option in Iran.

---

<sup>1</sup> Executive Master Business Administration, EMBA, Islamic Azad University, Bonab, Iran. Faculty of Humanity Sciences, Department of Management and Accounting Young Researchers Club Member, IAU Bonab, Iran. Email:mr.noruzi.pnu@gmail.com.

<sup>2</sup> Ph.D.Assistant Professor of Business, Utah Valley University, 800 W. University Parkway, MS-119 Orem, UT 84058-5999 USA. Email: jonathan.westover@uvu.edu.

\*Received 9 May 2010; accepted 15 August

## **THE HISTORY OF COOPERATIVES**

Historians have tracked the use of cooperatives back to ancient times (McBride, 1986).

According to Kalmi (2003), cooperatives have been studied in many areas of the social sciences, including economics, political science, sociology, organizational behavior, and political economy disciplines. The term “cooperative” first was coined in the early 19<sup>th</sup> century and has evolved as an economic and organizational form since then. Some of the most noted scholars studying cooperatives include great economists John Stuart Mill, Leon Walras, Alfred Marshall and Charles Gidei. Additionally, like the position of cooperatives in capitalist societies, “the study of cooperatives in modern economics has been relatively marginal but persistent, with occasional surges of interest” (Kalmi, 2003, p.1).

## **COOPERATIVES AND THE ECONOMY**

All over the world, cooperatives play a major role in the agricultural and food industries in individual nation-states. For example, in the Netherlands, in 2001, cooperatives processed 84% of all milk and 63% of all sugar beets, supplied 54% of all compound feed, provided 87% of all credit to farmers, and sold 95% of all flowers and potted plants (NCR, 2002). Additionally, about 60% of all fruits and vegetables produced in the Netherlands were sold through co-operative auctions or marketing cooperatives (Bijman & Hendrikse, 2003).

## **STRUCTURE OF COOPERATIVES**

The efficiency of a cooperative versus the conventional firm has been analyzed from a governance perspective by Hendrikse and Veerman (2001). They argue that a cooperative is efficient when the investors have relation with each others. Also another aspect of an efficient cooperative is having a good structure and Hansmann (1996) characterizes a good structure by decision rights and income rights to drive firm efficiency (Hendrikse and Cees, 2003).

In a cooperative or in other organizations and Small and Medium Enterprises (SMEs) decision making on firm or organization strategy and operations is done at two levels: in the cooperative society and in the enterprise. Decision making in cooperative society is done by all people in the community (such as school, university, city, etc.) and decision making at the enterprise level is done by the management, which is then controlled by the board of directors of the cooperative, which is elected by all members together. Sometimes, if major strategic decisions are to be taken, the general assembly convenes for a direct vote on the strategy.

## **DECISION MAKING IN COOPERATIVES**

Decision making in cooperatives (collective decision making not personal) has two kinds of costs: (1) the costs related to the decision making process itself, like organizing meetings, lobbying, and allowances for board members, and (2) the costs of making inefficient decisions (Bijman and et al, 2000). It should be considered that although collective decision making has many advantages and the democratic process of decision making lowers the chance of selecting “bad” investment projects (Hendrikse, 1998), sometimes collective decision making has disadvantages too (such as decisions which do not optimize benefits for the cooperative as a whole, but only for a limited group of owners or stakeholders). We can also say that homogeneity of interests is a major explanation for low decision making costs in some cooperatives (Hansmann, 1996; Bijman and et al, 2000).

## **IRANIAN ORGANIZATIONS' PRACTICAL GUIDES TO RUNNING EFFECTIVE COOPERATIVES**

There are many major actions Iran can take to enhance the productivity of its cooperatives, some of which are discussed below:

### **(1) Adjusting Governance Policies for Enhancing More Cooperation**

Iranian governance should make some policy and regulatory adjustments to help motivate citizens to establish cooperatives. In some countries, people can establish a cooperative in one day but in Iran it is a difficult and complicated process. Also, the Iranian governance structure should allocate income rights and decision rights (i.e. it determines who receives income from the use of the organization's assets and who may decide over these assets).

### **(2) Introducing Stock Holder/Management Relationship**

Customer relationship management (CRM) is also applicable to managing the stockholder relationship too, and this should be communicated to key stakeholders involved with the management of a cooperative firm.

### **(3) Informing about the Advantages of Having Good Relationship with Buyers**

A cooperative is just a different organizational form for a firm, and therefore has the same roles as other privatized firms. Cooperatives should follow effective management and organizational practices and should try to keep old customers while simultaneously obtaining new ones.

### **(4) Inspiring Innovation and Differentiation Morality**

In the Iranian cooperative sector, members usually do not participate in the process of production R&D or other innovation-driven practices. When this is the case, the participation scale is low and cooperatives struggle more. Therefore, Iranian cooperatives should try to enhance this participation to be an innovative cooperative.

### **(5) Informing Ownership and Financing Issues Among Members**

From the beginning of cooperatives as an organizational form, there has been a great need for open channels of clear communication to be available regarding financial and ownership affairs.

### **(6) Price Setting**

Price setting and other related subjects should be carefully considered in cooperatives, just as with other firms.

### **(7) Marketing and Promotion**

Decisions regarding marketing a new product offering from the cooperative should flow from the cooperative's role and policies and should not be a personal decision.

Market power, or more generally market imperfection, is the most common reason for establishing a cooperative mentioned in the economics literature (e.g., LeVay, 1983; Schrader, 1989).

### **(8) Considering Formal and Informal Aspects**

The informal aspects of organizations have to be considered together with the formal aspects in the design of governance structures for cooperatives (Baker, e.a., 1999, 2002).

### **(9) Iranian Cooperatives should be linked with Superior International Cooperatives**

The main function of the cooperative is to enhance income of member-firms by providing specific services that support the activities of the members (Bijman & Hendrikse 2003). Because trust is one essential matter in every cooperative, having a relation with other superior organizations for monitoring is desirable. It is notable that Iranian organizations follow Islamic teachings and speech, which encourage a high level of compliance with organizational norms and rules. Additionally, "a cooperative may also be superior to a stock listed enterprise due to the continuous exchange of information between members,

Mohammad Reza Noruzi; Jonathan H. Westover/Management Science and Engineering Vol.4 No.3, 2010  
which enables them to evaluate the decisions of the professional management better than the many small shareholders of stock listed companies” (Hendrikse and Cees, 2003, p.6).

(10) Motivating Scholars who Want to Study about Iranian Cooperatives' Challenges

Iranian scholars should note the results of much economic research when engaging in the study of cooperatives. Iranian scholars should also engage in repeated interaction between the two research communities, association and R&D sectors in the form of conferences, workshops, and joint publications. Also they should pay more attention to increase awareness of the research traditions in the disciplines which it would be of great help. Cooperative studies can hardly be based on economics alone, but it would be foolish to disregard economics. Also Iranian scholars should use multidimensional thinking or open-minded and pluralistic attitudes, which can be the necessary ingredients of success (Kalmi, 2003).

(11) Privatizing

Privatization can be stated as the transfer of operational control of an enterprise from the government to the private sector (Bahatia & Campbell, 1998). A move towards greater privatization results in the creation of more cooperatives in a society, so it should be considered one of the aspects to driving effective cooperative formation and maintenance in a country.

## CONCLUSION

Unfortunately, a comprehensive survey on attitudes of cooperative ownership and accountability is not yet available (Boos, 2004). However, Fukuyama (1994) pointed out how essential trust is in explaining the welfare development of nations and cooperatives of a country. Additionally, it should be considered that there are many different factors that can impact cooperatives (e.g. economic, political, and environmental changes) (Hendrikse and Cees, 2003). Finally, as Iran is one of the countries in the process of rapid economic development, Iranian government officials and policymakers needs to consider the value of cooperatives as a viable organizational form and give greater attention to the importance of cooperatives in an Iranian context.

## REFERENCES

- Anita Bhatia and Oliver Campbell White. (1998). *Privatization in Africa*, (Washington, D.C.: International Bank for Reconstruction), p.10
- Bijman Jos- George Hendrikse. (2003). *Co-operatives in chains: institutional restructuring in the Dutch fruit and vegetables industry*, pp.1-32
- Boos, Eric. (2004). *Plans, Promises and Problems with Privatization in Tanzania*, pp.1-28 Available online at: <http://www.ssrn.com>
- Baker, G., R. Gibbons and K.J. Murphy. (2002). Relational Contracts and the Theory of the Firm. *Quarterly Journal of Economics*, 117(1), 39-84.
- Bigsten, Arne. (2007). EU development policy: This chapter is in need of a catchy title pp. 50-84
- Bijman, Jos- George Hendrikse- Cees Veerman. ( 2000). *A marketing co-operative as a system of attributes: A case study of VTN/The Greenery International BV*. Available at: <http://www.ssrn.com>
- Fukuyama, F., Trust, London. 1995.
- Hansmann, Henry (1996). *The Ownership of Enterprise*, Cambridge, MA/London: The Belknap Press of Harvard University Press.
- Hansmann, H., *The Ownership of Enterprise*, Belknap Press of Harvard University Press, 1996.
- Hendrikse, G.W.J. (1998). Screening, competition and the choice of the cooperative as an organizational form. *Journal of Agricultural Economics*, Vol. 49, pp. 202-217.

- Hendrikse George W.J- Cees P. Veerman. (2003). ON THE FUTURE OF CO-OPERATIVES: TAKING STOCK, LOOKING AHEAD, Publications in the ERIM Report Series Research\* in Management ERIM Research Program: "Organizing for Performance".
- Hendrikse G.W.J. en C.P. Veerman. (2001). Marketing Co-operatives: An Incomplete Contracting Perspective. *Journal of Agricultural Economics*, 52(1), 53-64.
- Kalmi, Panu. (2003). *The Study of Co-operatives in Modern Economics: A Methodological Essay*. Earlier version of the paper was presented in the Mapping Co-operative Studies in the New Millennium Congress, May 28-31, 2003, in Victoria, British Columbia, pp.1-26
- LeVay, C.. (1983). Agricultural Co-operative Theory: A Review. *Journal of Agricultural Economics* 34, No. 1, 1-44.
- McBride, G. (1986). *Agricultural Co-operatives. Their Why and Their How*. AVI Publishing Company, Westport CT.
- Neto, Sigismundo Bialoskorski, Marcelo Francini Girão Barroso, Amaury José Rezende. (2004). *Cooperative Governance and Management Systems: An Agency Costs Theoretical Approach*, pp.1-17
- OECD (1997). *Vertical coordination in the fruit and vegetable sector: implications for existing market institutions and policy instruments*. Paris: OECD, Directorate for Food, Agriculture and Fisheries 2003 On ERS-2003-007-ORG , pp. 1-14
- Schrader, L.F.. (1989). Economic Justification. In: D.W. Cobia (ed.), *Cooperatives in Agriculture*. Englewood Cliffs, NJ: Prentice Hall, pp. 121-137.