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ACTUAL ISSUES OF COOPERATIVE PROPERTY'S TRANSACTION ANALYSIS

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Abstract

The activity of cooperative enterprises that occurs in a certain institutional environment and is defined as a set of basic social, political, legal and economic norms as part of human behavior is considered. It has been established that institutions influence the functioning of cooperatives by influencing the costs of exchange and production. Together with technology, they determine the transaction and transformation costs that make up the total costs. The research focuses on cooperative enterprises, as targeted entities designed to maximize income or achieve a goal defined by the opportunities created by the institutional structure.

The study proved the existence of cooperatives advantages in competitiveness in comparison with enterprises of other forms of ownership. It has been established that the advantages of cooperative ownership over other forms of ownership are not in technology, in technology, or in the qualifications of cooperators.The main advantage of cooperatives over traditional capitalist firms is the increased motivation of the members of the cooperative. To establish this, a transactional analysis of cooperative ownership was carried out.

Keywords: Transaction, Transaction Charges, Opportunism, Co-operative Ideology, Co-operative Property.

1. Introduction

Transactions are strategic relations in the course of economic activity, without which there could be no production, consumption, purchase, sale, investment. The concept of the transaction was introduced into the economy by J.R. Commons, who considered the problem of economic organization in close connection with the problems of conflict, interdependence and order (Tkach,2007).During the transaction the legal control is realized and the conflicts of interest of the dependent individuals are resolved in such a way that a social need arises.

Therefore, property, the essence of which is the legitimate right to retain whatever it needs, is the basis of the institutional economy, and transaction is an elemental part of economic activity and, therefore, the basic unit of economic analysis. Transactions are not about exchange of goods, but alienation and assignment of property rights. Cooperatives can only be genuine and successful if the economic basis of their operation is cooperative ownership.

2. Status of Problem Study

The theoretical basis for conducting a transactional analysis of cooperative ownership was the work of scientists, who began separate directions of institutional theory of developed market systems: transactions – D. Bromley, J. Commons; transaction costs – R. Coase, D. North; contracts – O. Williamson, B. Klein; the theory of property rights – S. Peyovich, E. Furubotn. The ideologist of property theory is considered by A. Alcian, and its developers are recognized by such economists as R. Coase, G. Demets, R. Poser, D. North and some others. The general idea is that it is not the resource that embodies the property, but «the bundle or share of the rights to use the resource is what constitutes the property»(Tkach,2007).However, complex research on the features of transactional analysis of cooperative ownership is essentially absent. All this determines the relevance of the problems for further study.

3. Tasks and Methods of Research

It is necessary to compare the co-operative property with the classic private, public, as well as some types of joint-stock and answer the question of how this or that property system affects the value of transformational and, above all, transaction costs. Comparison of transaction costs is based on logical analysis and not on any specific, empirical figures. Only those costs that are reflected in the accounting of the enterprise will be analyzed.

The researches are made according to the conventional methods used in economic science - abstract-logical, method of modeling, monographic, system analysis and synthesis.

4. Research Results

This type of ownership has emerged as a cooperative in the UK. Its origin was explained, first, by the strong desire of the first cooperators to gain economic independence from the owners of private capitalist enterprises.

Table 1. Features of Cooperative Ownership

Features of Cooperative Ownership	Characteristics of Features
Voluntary conversion of a part of private property of members into a cooperative	The membership of the members when joining a cooperative does not disappear as their private property, and is not completely absorbed by the cooperative, but takes part only in the formation of the common cooperative ownership and part assumes responsibility for the general obligations of the cooperative.
Multi-entity	The property of each cooperative is separated from the property of other cooperatives. This cooperative provides legal and actual independence, the ability to independently plan their activities and make any decisions.
Cooperative ownership is a type of private property	The private ownership of a cooperative means that any outside non-economic force cannot impose on the cooperative, as an autonomous private owner, certain conduct.
Cooperative ownership is a group and collective ownership	Co-operative property is something that is collectively managed by the entire co-op group. The results of the economic activity of a real cooperative become the achievement of the whole collective, of the whole group of members of the cooperative, and not of a narrow circle of persons.
Cooperative ownership implies decentralization	Property objects should be closer not to the "center", but to those to whom they are created and to whom they belong. The nature of co-operative ownership is most closely matched by market conditions of economic maneuver, competitiveness on the market.
Effective participation of members in their cooperatives in one form or another	The voluntary participation of the members is one of the fundamental values of the cooperation. Due to the participation of the members of the cooperative, the real risk of their alienation from the cooperative property is reduced.

Source: Own research.

The members of the cooperative begin to pool their modest means through complicity and become joint owners. Second, as a business enterprise, a cooperative can only be successful if it has its own property. Third, the cooperative is obliged to own the legal entity as a legal entity. Each cooperative has at its disposal a small or large complex of immovable and movable property (Sobolev, 2010). Such an economic relationship of ownership inevitably receives legal consolidation in the system of legal rules. As a result, the cooperative gets the ownership.

In the constitutions of several countries, co-ownership is recognized as an independent form of ownership along with private and state forms. In cases where such a direct link does not exist, co-ownership is regarded as a type of property, whether private or public. Thus, the English cooperative leader P. Derrick believed that: «Cooperative property is a form of» private «ownership in the sense that cooperatives are independent of the state, but it is also a form of public ownership»(Kuzmin, 1974). The Belgian cooperator, economist, Professor P. Lamber argued that «co-operation solves the property problem: it makes capital an object of public property and encourages − as far as technically possible − all people to use it, using the principle of «open doors»(Kuzmin, 1974).

Cooperative ownership and its core − the ownership of cooperatives − have a number of distinctive features. This is also the non-state essence of cooperative property, peculiarities of its formation, the division of cooperative property into indivisible and divisible parts, etc. In addition, there are other significant features of the cooperative ownership.(see Table 1).

However, none of the considered differences of cooperative ownership separately characterizes it exhaustively and only all distinctive features in the aggregate allow to distinguish it from other forms and types of ownership. The loss of distinctive features of cooperative ownership can only testify to the disappearance of its specificity, and hence the degree of deformation. Ignoring the internal properties of cooperative property objectively leads to its underestimation, to the loss of identity of cooperatives, to the idea of their elimination.

Having established the peculiarities of the cooperative form of ownership, one can proceed to its transactional analysis. For this purpose we will use the classification of transformation and transaction costs. Transformation costs include:

1. Fixed costs. Their value depends, first of all, on the size of the cooperative. In addition, fixed costs are associated with some types of transaction costs, first and foremost, with the costs of exposure, and the relationship is direct. It is clear that with the same size of enterprises fixed costs will be comparatively less in the enterprise with private and cooperative ownership and more in the enterprise of state and joint-stock ownership.

2. Variable costs. They are much less than permanent, depending on the size of the organization (although there is such a connection). Employee interest in achieving the end result reduces the variable costs, which is typical for cooperatives in the first place.

Let's consider the types of transaction costs for cooperatives. Transaction costs are the value of the resources spent on transactions. They are divided into − the cost of information retrieval, the cost of negotiation, the cost of measurement, the cost of specification and protection of property rights, the cost of opportunistic behavior, the cost of politicization.

The existence of information retrieval costs is due to the limited nature of the information possessed by the individual. This kind of cost consists of the time and other scarce resources needed to find the best possible alternatives. A. Shastitko states: «The existence of this type of cost is primarily determined by the differentiation of prices for the same product, which is not caused by differences in transport costs. The basis of such price differentiation is the phenomenon of uncertainty, which is manifested in the fragmentation and heterogeneity of information that every economic agent receives»(Shastitko, 1998).

It can be stated that where the relationship between property and management is more pronounced, where the problem of agency relations is not so acute, the cost of information search should be lower. Obviously, the forms of ownership that generally have such an advantage will be private, joint stock with the participation of employees in management and cooperative. Thus, for these forms of ownership, the costs of information retrieval will be slightly below average, for other forms of ownership they will be average.

The cost of negotiation arises from the lack of economic operators'full information −in this case − information on the parties' comparative bargaining power. These are the costs of negotiating the terms of the exchange, choosing the form of the agreement. The more people involved in running a business,

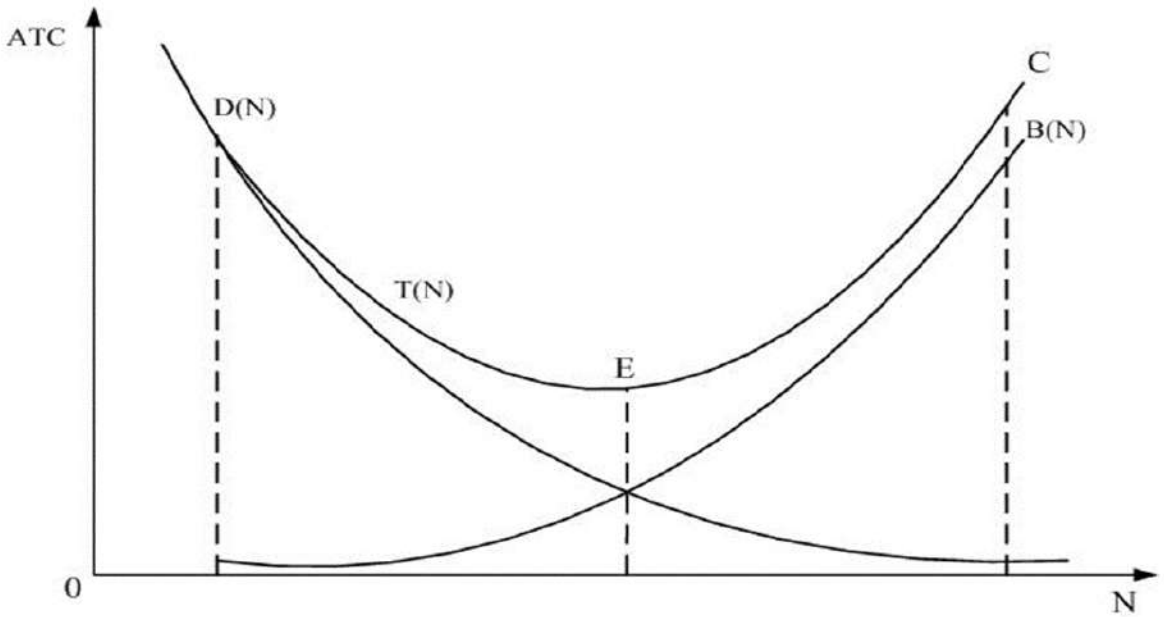
the higher the cost of negotiating. Therefore, in cooperatives and enterprises (private and joint-stock), where employees are directly involved in management, these costs will be above average.

Measurement costs are the costs necessary to measure the quality of the goods and services for which the transaction is being made. According to R. Kapelyushnikov «… measurement is a quantification of information»(Kapelyushnikov,1994). As A. Shastitko notes: «Information about the properties of goods is distributed unequally between contractors and is the content of the phenomenon of asymmetry of information, which forces the party with less information to bear relatively higher costs (through the use of experts, time consuming, etc.), related to the restoration of symmetry in its possession»(Shastitko, 1998). Cooperatives and joint-stock companies with the participation of employees in management have the advantages of this type of expenses.

The costs of specification and protection of property rights include the costs associated with the legislative provision of the specification of property rights and the costs of maintaining the property rights protection authorities. According to A. Shastitko: «It is assumed that economic agents act in accordance with their interests, so respect for the rights of others (as a system) is possible when the incentive structure, defined by sanctions for violation of the legal regime, does not allow to violate the established rules»(Shastitko, 1998).

One of the main means of saving on the costs of specification and protection of property rights is an ideology that enables the protection of property rights more effectively than formal institutions. On the other hand, the cost of supporting such an ideology in society must also be counted as such. Despite the fact that the costs of specification and protection of property rights are characteristic, first of all, for the whole society as a whole, its specific institutes, including cooperative property institutes, are not free from these costs.

It is necessary to separate the costs of the specification from the costs of property rights protection to analyze this type of transaction costs.If the latter are related to the number of owners inversely proportional to dependence (ie, the more owners, the less transaction costs of ensuring the security of property against external encroachments)(Shastitko, 1998), for the former, in the general case, there is a direct relationship between these costs and the number of owners. Most likely, the smallest amount of costs of specification and protection of property rights is characteristic of communal property institutions (private property is characterized by high security costs, and the state − a high degree of erosion of property rights). As an illustration, a graphical confirmation of this thesis can be given.

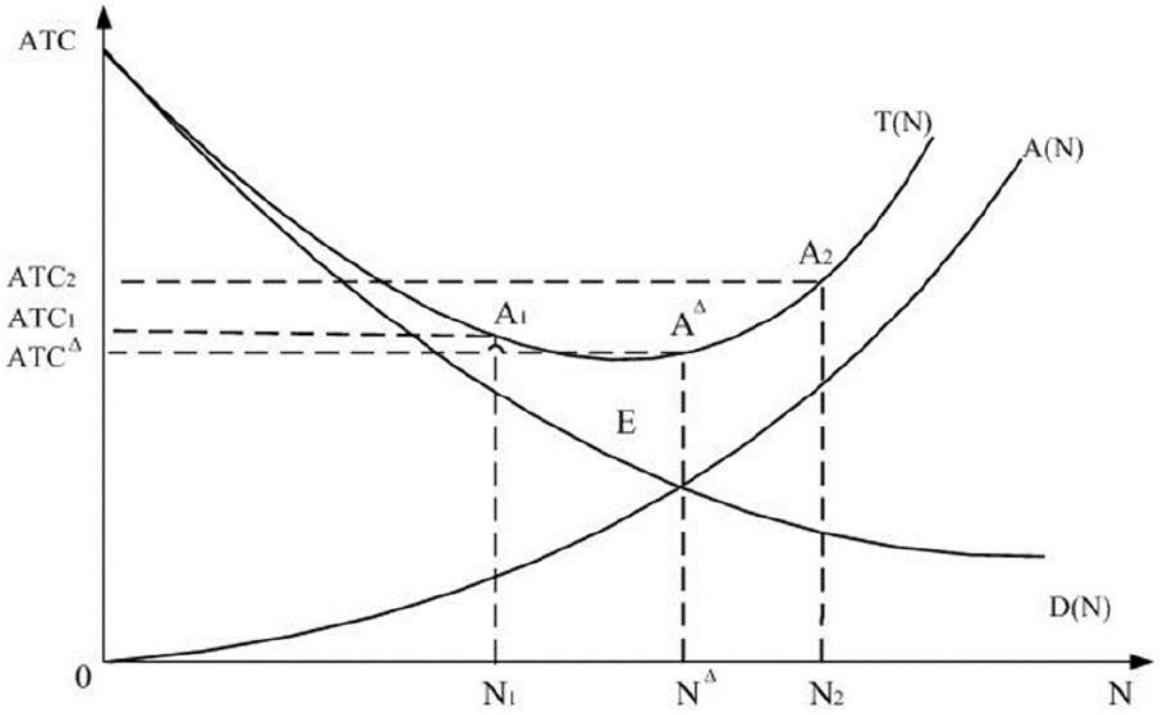


Note: ATS − average transaction costs of specification and protection of property rights per person; N is the number of people in the group
Source: Shastitko, 1998.

Figure 1. Specification Costs and Costs of Property Rights Protection

In Figure. 1 curve D (N) is the specific cost of securing property rights against external encroachment, and curve B (N) is the specific cost of specifying property rights (the shape and angle of both curves are arbitrary: it is impossible to say anything specific about the first or the second curve). Point A on the curve T (N) (T = B (N) + D (N)) shows the case of private property, point C − the case of state and point E − communal property. Of the various forms of ownership, the cooperative has the advantage of the level of such costs: cooperative ideology reduces the risk of opportunistic behavior, which in turn reduces the costs of specification and protection of property rights.

The basis of opportunistic behavior lies in the divergence of economic interests caused by the scarcity of resources, uncertainty and, as a consequence, the poor specificity of contract terms. Opportunism, according to Williamson, means «… the provision of incomplete or distorted information, especially when it comes to deliberate deception, misrepresentation, and concealment of truth or other methods of entanglement of a partner. It underlies true or perceived informational asymmetry that complicates economic organization problems»(Williamson, 1996). If the expected costs associated with evasion of the contract are less than the benefits it will bring, then this economic agent will choose one or the other form (pre-contract and post-contract) opportunistic behavior.



Source: Shastitko, 1998.

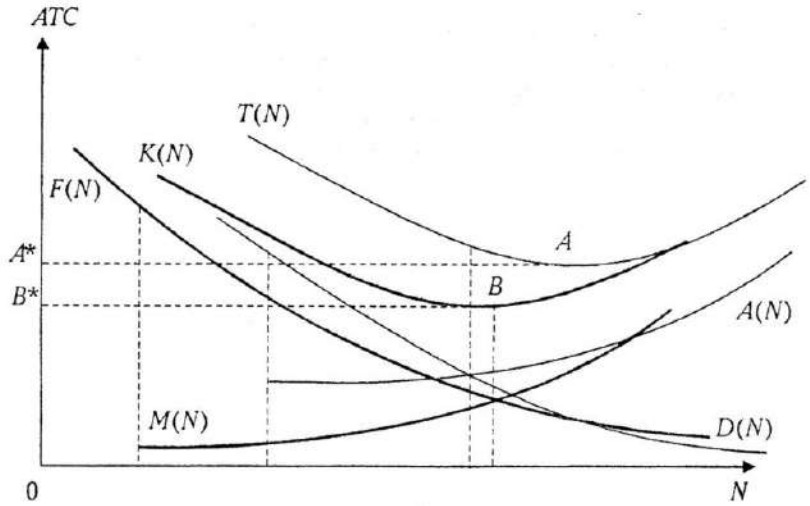
Figure 2. The Optimal Size of the Organization

The term politicization costs refers to transaction costs that occur within an organization and are related to the very nature of decision making within the organization. If the voluntary nature of an agreement entered into the market provides a guarantee for effective decision-making, the absence of such voluntariness within the organization entails additional costs. Moreover, this happens both when decisions are taken on a collective basis and when decisions are made centrally. The costs of collective decision making are directly proportional to the number of people involved in the decision-making process. It is likely that these costs will be minimal with the private ownership and maximum with the state, cooperative and joint stock with the participation of employees in the management of the enterprise.

The costs of influence arise from the desire of rationally acting individuals who do not participate directly in the decision-making process to reap the benefits of decisions made in the administrative system. The cost of influence in cooperatives, as a rule, cannot be significant because the cooperatives are not so large. In addition, since cooperators themselves manage their property, cooperatives are likely

to have less information asymmetry between agents and principals, and also reduce the cost of influence and cooperative ideology.

The graph in figure. 2 binds the optimum size of the cooperative to the dynamics of two types of transaction costs: the specific costs of reaching agreement and ensuring control over its implementation by members of the group and the specific costs of securing property rights against external encroachments. ATS – average transaction costs (per person); A (N) – the specific costs of reaching an agreement and ensuring control over its implementation by team members; D (N) – specific costs of securing property rights against external encroachments; T (N) – total transaction costs; N * – the size of the group that minimizes average transaction costs; ATS * is the minimum average transaction cost.



Note: PBX – specific costs; N is the number of people in the group
Source: Hats, 1994.

Figure 3. Costs and Cooperative Ideology

Thanks to the analysis we can associate finding the optimal group size in a cooperative ownership system not only with the specific costs of reaching the agreement and ensuring control over its implementation and the specific costs of securing property rights against external encroachments, but also with all the latest types of transactional and transformation costs that affect the size of the group. In Figure. 3 curve D (N) reflects the total changes in transaction costs of information retrieval, measurement and protection costs, and ongoing transformation costs. Curve A (N) is the sum of transaction costs of the specification of property rights, opportunistic behavior (evasion), collective decision-making and influence costs. Accordingly, as in Figure. 2. T (N) = A (T) + D (N). The K (N) = F (N) + M (N) curve is an analogue of the T (N) curve for cooperatives. As has been shown, cooperative ideology allows cooperatives to have a lower cost (primarily transactional), compared to other enterprises, primarily communal property. That is, A * – B * is the difference in costs that cooperative ideology provides.

5. Conclusions

This is a very common case: in addition to the factors considered – ownership and size of cooperatives – the cost and cost effectiveness are influenced by many other factors, for us by exogenous ones (for example, talentless leadership, etc.). In addition to reducing costs, cooperatives can receive specific benefits from another source by increasing profits. The cooperator has much more reason to think not only about himself but also about the whole cooperative. It is easier for a cooperative member to realize their creative potential than for a hired worker: the former is more interested in this. Cooperative ideology is the source of another specific resource – a special, high motivation, creative attitude to work. However, the role of a factor in increasing profits appears to be much smaller compared to a reduction in costs. First, even a significant increase in motivation can only in exceptional cases be

advantageous in a particular struggle: in modern conditions, specific resource number one is knowledge, information, and knowledge cannot be replaced by any motivation. Secondly, it is more difficult for people who have some specific resources (the same knowledge) to co-opt than for people who do not have the resources. Third, such an advantage may be characteristic only of industrial cooperation.

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