

Public Abstract
Bradley Plunkett
PhD

Agricultural Economics

The Portfolio Problem in Agricultural Cooperatives: An Integrated Framework

Advisor: Michael L. Cook _____

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A portfolio problem within agricultural cooperatives arises as a result of the traditional cooperative's property rights structure. As members' investment is proportionally tied to volume of patronage, they are prevented from adjusting their cooperative investment to reflect their appetite for risk *at the cooperative level*. If members develop differing preferences as to how the cooperative should best invest their capital, then conflict between sub groups of members may develop as to which forms of cooperative investment are preferred.

The study develops a framework to test and extend our understanding of the scope of the problem. It examines the business strategies and structures of three cooperatives and utilizes membership surveys to test if sub groups had different investment preferences. It conceptualizes a *lateral* portfolio problem as conflict arising between increasingly specialized members of a diversified cooperative. Highly specialized members will tend to prefer cooperative investment that reflects their on-farm specialization while more diversified members will prefer cooperative investment that reflects their on-farm diversification. It conceptualizes a *vertical* portfolio problem as conflict arising between members with different growth strategies within a single commodity cooperative. Members with high growth strategies will tend to prefer cooperative investment that will underpin their on-farm investment, while relatively low growth members will tend to prefer investment that increases commodity prices.

The study demonstrates that there are trade offs in designing strategies to deal with these problems. What may appear to be a successful strategy in the short run may present new challenges in the future.