THE PORTFOLIO PROBLEM IN AGRICULTURAL COOPERATIVES:

AN INTEGRATED FRAMEWORK

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ABSTRACT

A portfolio problem within agricultural cooperatives arises as a result of the traditional cooperative’s property rights structure. As members’ investment is tied to patronage, this traditional structure prevents them from adjusting cooperative investment to reflect their appetite for risk at the cooperative level. The study develops an opportunity cost of capital framework to test and extend the existing scope of the problem. To date the portfolio problem has been conceptualized in a lateral dimension; that is, the potential for conflict between members with differing commodity production portfolios at the farm level. The framework extends this conceptualization to the vertical dimension of potential conflict between members producing the same commodity with differing growth strategies and their consequent ability to gain benefit from their existing pattern of cooperative investment.

The study demonstrates that new challenges may arise when a cooperative adopts non traditional structures and/or business strategies to ameliorate this problem.