

# THE INVESTMENT HORIZON ISSUE IN USER-OWNED ORGANIZATIONS

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## **ABSTRACT**

This research addresses the issue of an investment constraint in user-owned agricultural organizations called the horizon problem. Scholars have suggested the restrictions on the transferability of residual claimant rights and the restricted liquidity through a secondary market results in a disincentive for user-owners to invest in growth opportunities. However, despite the conceptual and anecdotal arguments supporting the existence of and degree of investment constraints, the empirical evidence is scarce and inconclusive. This study attempts to fill part of this void in the literature by investigating the investment horizon constraint.

This study divides the horizon problem literature into (1) the agent-control horizon problem and (2) the investment horizon problem, but focuses on the latter. The purpose of this study is to empirically test to what degree the investment horizon problem exists in user-owned agricultural organizations by analyzing several variants of the horizon problem in user-owned organizations: the wait-to-receive horizon problem, the hassle horizon problem, the current obligation horizon problem, the short-term residual horizon problem. This study also identifies the appreciated value horizon problem but space and time preclude its analysis in this study.

In order to analyze to what degree the horizon problem exists in user-owned organizations, this study analyzes data generated by research case studies and member surveys conducted between January 2003 and May 2005. The multiple case studies helped inform the member survey design. Multivariate analysis of the data generated from the member surveys of four agricultural cooperatives inform to what degree the investment horizon problem exists in the selected cooperatives by evaluating the member's investment preferences for the cooperative equity redemption plan and the member's preferences for future cooperative investments. Multivariate data techniques including factor analysis, ordinal probit regression and cluster analysis test whether the member's characteristics have a significant impact on his investment preferences to support or reject the operational hypotheses.

The obtained results suggest that more than one type of horizon problem exists in user-owned agricultural organizations. Each horizon problem is important in certain contexts and for different types of cooperatives. The results suggest the wait-to-receive horizon problem is more prevalent in cooperatives with passive investment where the investment is redeemed over longer revolving periods. As expected, the hassle horizon problem was more prevalent in organizations where the user and investor benefits are not separable. The results suggest the current obligation horizon problem weakly exists in cost of goods sold cooperatives that pay the minimum percent of allocated equities in cash in year generated. As expected the short-term residual horizon problem exists in organizations where the members cannot transfer their shares or cooperative investment. The results of this study have serious implications for cooperative organizational design as well as capital structure policies in user-owned agricultural organizations.