

RESEARCH ARTICLE

Moral and managerial perspectives on cooperatives: Towards a Luhmannian reconciliation

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Abstract

The recent literature on cooperatives includes two distinct and partly conflicting strands. The moral strand emphasizes cooperatives as a sustainable alternative to shareholder capitalism, while the managerial one problematizes the maintenance organizational costs that must be incurred by these organizations. To reconcile the disparity between these strands, we develop a Luhmannian view of how cooperatives navigate the precarious relationship between the economic function system and the societal environment. On this basis, we show that the maintenance organizational costs plaguing many cooperatives are indicative of an imperfect business case for providing a sustainable alternative to shareholder capitalism. Consequently, we view these costs as a reflection of the heightened managerial challenges involved in pursuing elevated moral objectives.

KEYWORDS

business case; cooperatives, Luhmann's systems theory, moral case

1 | INTRODUCTION

When cooperative scholars discuss the nature of cooperative identity, they often refer to Draheim's (1955) double nature thesis, which posits that cooperatives embody a 'double nature' that intertwines their economic and social dimensions. Today, the double nature of cooperatives is discussed in terms of hybridity (Draperi, 2021), organizational duality (Novkovic et al., 2022) and the nature of cooperatives as 'commons' (Azzellini, 2018; Novković & McMahon, 2023; Tortia, 2018). The double nature of cooperatives often poses a formidable

managerial challenge arising from the need to navigate the tension between their economic and non-economic objectives and characteristics (cf. Mooney & Gray, 2002; Novkovic, 2012; Puusa et al., 2013). At the same time, according to Novkovic et al. (2022), cooperatives may be able to productively harness this tension and in this way maximize their socio-economic impact. This task, however, requires that the nature of this tension, and the underlying organizational duality of cooperatives, is thoroughly understood.

The contribution of the present paper is in suggesting a new interpretation of this duality, which we apply not to cooperatives per se, but rather to observational perspectives applied to cooperatives by cooperative scholars. Following Graetz and Smith's (2008, p. 475) understanding of duality as 'the simultaneous presence of competing

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and ostensibly contradictory qualities', we take these qualities to refer to those observational perspectives that can be characterized as (predominantly) moral and (predominantly) managerial. The key theme of the perspectives that we take to be (predominantly) moral is that cooperatives present a form of sustainable organizing (Waldner & Rasche, 2023) that not only presents an alternative to the mainstream model of shareholder capitalism but may also subject this model to transformative change (Novkovic, 2022). In contrast, the perspectives that we take to be (predominantly) managerial highlight the challenges faced and strategies employed by cooperative managers to enabling their organizations to compete in an increasingly turbulent and hostile business environment. In recent cooperative scholarship, managerial perspectives are well exemplified by the examinations of the cooperative life cycle (Cook, 2018). Scholars working in this tradition have focused their attention primarily on agricultural cooperatives that face high maintenance organizational costs, which can be kept at a reasonable level by invoking special cooperative managerial capabilities, such as 'cooperative genius' (Iliopoulos & Cook, 2023).

While the literatures that adopt moral and managerial perspectives may not frequently intersect, it is important to acknowledge the potential for their mutual undermining. From a moral standpoint, the substantial challenges involved in managing cooperatives highlight the inherent limitations of this organizational form as a viable alternative to the prevailing shareholder capitalism model. Conversely, from a managerial viewpoint, if cooperatives indeed encounter significant managerial obstacles, the moral significance attributed to them and their potential to transform shareholder capitalism may be perceived as mere empty rhetoric lacking a solid institutional foundation in the real world. Both scenarios of mutual undermining are regrettable as they raise doubts regarding the socio-economic impact and problem-solving capabilities of cooperative organizations. To address this unfortunate state of the literature, the contribution of this paper is to explore the logical complementarity between the moral and managerial perspectives. By doing so, we aim to reconcile these perspectives and bridge the gap between them.

We will base our reconstruction of the moral and managerial perspectives on cooperatives on the social systems theory of Niklas Luhmann. This strategic choice draws on the extant applications of Luhmann's arguments to exploring the limitations of both shareholder capitalism (Valentinov et al., 2019, 2021) and cooperatives (cf. Bhardwaj et al., 2022; Iliopoulos & Valentinov, 2017, 2022, 2021). These analyses, on the one hand, recognize fundamental distinctions between

cooperatives and investor-oriented firms within shareholder capitalism. Most importantly, the Luhmannian scholarship underscores the differing degrees and modes of sensitivity and responsiveness to the societal and natural environment exhibited by cooperatives compared to investor-oriented firms. Cooperatives, driven by the objectives of their locally rooted members, tend to maintain direct connections with the community and often the natural surroundings, whereas investor-oriented firms tend to prioritize the objectives of their investors, who may lack strong community ties as well as interest in the natural environment (Bhardwaj et al., 2022). However, the Luhmannian perspective not only accentuates these disparities but also unveils intriguing parallels between cooperatives and investor-oriented firms. Most importantly, this perspective allows to examine both shareholder capitalism and cooperatives as social systems that maintain a precarious relationship with their broader societal environment. These parallels between cooperatives and investor-oriented firms have not been thoroughly elaborated in prior scholarship, and this is precisely what the present paper aims to accomplish. Towards this end, the next section will delve into specific tensions that arise when considering the moral and managerial perspectives on cooperatives simultaneously. Subsequent sections will then construct a Luhmannian conceptual framework for understanding the role of cooperatives within the capitalist system. On this basis, we will offer fresh insights on cooperatives from the vantage point of business ethics, thus contributing to a more comprehensive understanding of cooperatives and their societal impact.

2 | MAPPING THE TENSIONS BETWEEN THE MORAL AND MANAGERIAL PERSPECTIVES

The moral significance of cooperatives arguably goes back to Edwin Nourse's (1922, p. 577) astute observation that the cooperative movement emerged as a response to the early abuses and harsh realities of the capitalistic industrial system. Nourse (1945) further elucidated the moral transformation of the capitalist system, facilitated by cooperatives, through his concept of the competitive yardstick. By assuming the role of the yardstick, cooperatives not only incentivize investor-oriented firms to adopt fairer and more equitable pricing practices but also foster technological innovations that enhance the competitive position of their members, such as farmers (cf. Hogeland, 2007). Presently, scholars in the field of cooperatives continue to explore how cooperatives fulfil their yardstick role (e.g. Bijman & Höhler, 2023;

Westerholz & Höhler, 2022). It is widely acknowledged that this role is rooted in what Novkovic (2008) refers to as the 'cooperative difference', which is closely tied to cooperative values and principles. In view of this difference, cooperatives may indeed be supposed to 'rest on a different (not for profit, and people-centered) economic logic' (Novkovic, 2022, p. 318).

The profound moral foundation of the prevalent understanding of cooperatives is substantiated by the ICA statement of cooperative identity. This statement affirms that 'cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others'. In the context of agricultural cooperatives, Hogeland (2004) identifies additional moral elements suggested by the Jeffersonian philosophy of agrarianism. In contemporary discussions, we witness the recognition of cooperatives in textbooks on business ethics and responsibility (e.g. Waldner & Rasche, 2023), where they are regarded as an alternative form of organizing for sustainability, enabling the simultaneous pursuit of economic and social objectives. The acknowledged moral significance of cooperatives situates them at the heart of deliberations concerning the moral dilemmas inherent in capitalism. In this line, Novkovic (2022, p. 318) explicitly argues that 'cooperatives have the potential to instigate transformative change' within the current neoliberal capitalist system. She identifies the potential dimensions of this transformative change as the promotion of democracy, fair income distribution, dignity, decommodification of fictitious commodities, longevity and resilience and economic justice (Novkovic, 2022, p. 321). Building upon this foundation, Novkovic presents a compelling argument that the yardstick role of cooperatives can be interpreted in broader and more radical terms than initially proposed by Nourse (1945).

The recognition of the moral significance of cooperatives among a wide range of cooperative scholars and business ethicists appears to be juxtaposed with the examination of how even large and successful cooperatives struggle to address internal management challenges. This line of analysis is particularly prominent in the literature on agricultural cooperatives (e.g. Chaddad & Iliopoulos, 2013; Chaddad & Cook, 2004; Cook, 1995). Summarizing the extensive literature in this field, Iliopoulos and Cook (2023) identify a significant managerial challenge for these organizations in effectively managing various maintenance organizational costs, which may be related to risk-bearing, manager control, collective decision-making and securing strategic investments. It is these costs that contribute to the emergence

and influence the shape of the life cycle of cooperatives (Cook, 2018) and are believed to vary across different phases of their development (Iliopoulos & Cook, 2023). Potential solutions to mitigate maintenance and organizational costs encompass a wide range of approaches. These include aligning residual income and control rights of members, enhancing member loyalty and education and even considering the possibility of cooperative liquidation or conversion into an investor-owned firm. Just as scholars advocating for the moral significance of cooperatives believe that they have the potential to fundamentally challenge the capitalist system, Iliopoulos and Cook (2023) argue that the continued survival of cooperatives amidst highly competitive global agrifood value chains may necessitate a fundamental reinvention of these organizations.

The tension surrounding the role of cooperatives has been extensively explored in the cooperative literature, often falling into two main categories. Firstly, scholars have long recognized a 'strategic misalignment' between the cooperative enterprise's associative nature and incentive structures that do not align with user-owned cooperatives (Novkovic et al., 2022). This misalignment stems from the hostile institutional environment in which cooperatives operate (Novković & McMahon, 2023, p. 30; Thompson & Valentinov, 2017). Novkovic (2022, p. 320) highlights that this environment may expose cooperatives to non-congruent isomorphism, resulting in challenges such as the need to implement competitive pricing policies and grappling with member heterogeneity, similar to the issues examined by Iliopoulos and Cook (2023). Secondly, certain economic challenges faced by cooperatives have been attributed to the application of a mainstream economic mindset, which may be misplaced in the cooperative context. According to Borgen (2004), if cooperative members adopt this mindset, they may start to view themselves as investors rather than users of the cooperative, thus experiencing the property rights structure of cooperative as distorted. If this argument is correct, one must agree, as Novkovic (2022, p. 319) suggests, that the distinct features of the cooperative enterprise call for a paradigm shift away from mainstream microeconomic foundations and towards a humanistic economics paradigm (Novković & McMahon, 2023).

Against this backdrop, it is pertinent to note that neo-classical economic perspectives often depict the property rights structures of cooperatives as suboptimal. A prime illustration is the widely recognized Furubotn–Pejovich effect, which is considered a key factor contributing to the undercapitalization of cooperatives (cf. Tortia, 2005). Originating from the influential work of Furubotn and Pejovich (1970), this effect 'occurs when capital is purchased by individuals whose horizon—in terms of using

the capital—is less than the economically useful life of that capital, and where the individuals cannot sell their rights to use the capital’ (Ireland, 1984, p. 1). Especially when investments made in cooperatives by members are non-recoupable, the short-term horizon issue identified by Furubotn and Pejovich (1970) plausibly results in cooperatives facing difficulty attracting external capital. But whereas Furubotn and Pejovich (1970) based their argument on a neoclassical model (geared to the context of a Yugoslavian labour-managed firm), various deficiencies in the property rights structures of many cooperatives have been discovered by empirical studies that we classify under the rubric of managerial perspectives (cf. Iliopoulos & Cook, 2023). For example, in the 1998 study of the property rights constraints in the US agricultural cooperatives, the author found out that property rights structures of these cooperatives have been vaguely defined, thereby weakening cooperatives and undermining their transformative impact.

In summary, the managerial and moral perspectives on cooperatives have lacked meaningful dialogue, often talking past each other. Managerial perspectives focus on handling organizational costs, while moral perspectives critique and aim to transform capitalism. However, there has been a neglect of assessing the moral aspects of maintenance organizational costs and the managerial perspective on critiquing capitalism. The moral aspects of maintenance organizational costs reflect the ethical challenges and dilemmas that cooperatives face in their governance and management, such as how to balance the interests and rights of their members and other stakeholders; how to ensure the transparency, accountability and participation of their members and managers; how to deal with the conflicts, trade-offs and diversity among their members and their preferences, needs and goals; and how to align their values and principles with their strategies and practices. These aspects are important for cooperatives to maintain their identity, culture and legitimacy as social and altruistic agents that pursue multiple and diverse objectives, such as economic, social and environmental goals, and that aim to enhance the sensitivity and responsiveness of the economic system to the societal environment and the unmet human needs. The managerial perspective on critiquing capitalism reflects the pragmatic and realistic challenges and opportunities that cooperatives face in their operations and performance, such as how to adapt and compete in the capitalist system, how to generate sufficient income and capital to cover their costs and to invest in their development and innovation, how to be aware and mindful of the potential risks and threats that may jeopardize their viability and stability and how to be flexible and innovative in their structures and models. These aspects are important for

cooperatives to maintain their efficiency, effectiveness and competitiveness as economic and financial agents that operate within the economic system and that need to respond and adjust to the changing conditions and demands of the market and the society.

To bridge the gap between the moral and managerial perspectives, we propose incorporating a business ethics standpoint, emphasizing the distinction between the moral and business cases. More precisely, we argue that critiquing and transforming capitalism is a moral case that, in managerial terms, may distract cooperatives from focusing on their economic and financial performance and sustainability, thus exposing them to various risks and threats from the external environment and possibly suppressing their business case. To forestall these adverse consequences for the business case, cooperatives should not be seen exclusively as moral agents that aim to critique and transform capitalism but also as pragmatic agents that need to adapt and compete in capitalism. This interpretation, though simple and straightforward, integrates the moral and managerial perspectives and highlights their logical complementarity. In the next section, we draw on Luhmannian systems theory terminology to explore the institutional mechanisms through which this complementarity is actually manifested.

3 | LUHMANN'S SYSTEMS THEORY, BUSINESS ETHICS AND COOPERATIVES

Niklas Luhmann, the eminent German sociologist and systems thinker, made significant contributions to sociological systems theory by centring his framework on the precarious nature of the relationships between the societal environment and the complexity-reducing social systems. A recent stream of Luhmannian scholarship applied this idea of precariousness to understanding the dynamics of capitalistic business, particularly from an ethical standpoint (Valentinov, 2019; Valentinov et al., 2019, 2021). Luhmann's conceptualization of the economy as a closed and self-referential system, detached from its societal and natural surroundings, highlights the potential insensitivity of the economy to its broader interdependencies (Freeman et al., 2010). This insensitivity creates a functional space for business ethics practices, such as corporate social responsibility (CSR) and managing for stakeholders (Freeman et al., 2018). Today's scholars recognize cooperatives as a variety of such ethics practices.

In this line, Valentinov and Iliopoulos (2021) argue that the complexity-reducing nature of the economic system leads to its limited responsiveness to a wide range of

human needs that fail to generate sufficient demand for products and services offered by profit-oriented investor-owned firms. According to the authors, this effect of the economic reducing function creates a functional niche for cooperatives that may contribute to addressing a broader range of human needs through mutual self-help initiatives occurring within the economic function system.

If this argument is correct, then cooperatives indeed enhance the sensitivity of the economic function system towards unmet human needs, thus expanding the system's scope to incorporate a broader spectrum of human activities. In this way, cooperatives act as pioneers, integrating novel signals from the societal environment into the economic function system. However, Valentinov and Iliopoulos (2021) argue that, according to the Luhmannian perspective, the economic function system achieves full sensitivity to these human needs not through cooperatives, but rather through profit-seeking investor-owned firms. The role of cooperatives is in nudging investor-owned to improve this sensitivity, as highlighted by Nourse (1945) in his notion of the 'yardstick effect' of cooperatives.

Simultaneously, the Luhmannian framework not only allows us to understand the functional role of cooperatives within a capitalist economy but also sheds light on the economic challenges they face. Iliopoulos and Valentinov (2017) revisited the Luhmann-Habermas debate to re-evaluate Draheim's (1955) concept of the double nature of cooperatives. They argued that this double nature implies the inherent sensitivity of cooperatives to the unique and diverse lifeworlds of their members. Logically, insofar as members' lifeworlds become heterogeneous over time, the heterogeneity of member interests grows, thereby increasing the managerial challenges faced by cooperatives.

A crucial implication of this argument is that these challenges could be less pronounced if cooperative objectives would be more uniform. In theory, the assumption of the uniformity of cooperative objectives goes back to early neoclassical economic models, which viewed cooperatives as rational organizations maximizing a single economic objective function (e.g. Furubotn & Pejovich, 1970; Ward, 1958). But even more generally, the uniformity of cooperative objectives is the logical basis of mutual self-help among members. While important strands of today's economic literature on cooperatives question the neoclassical orthodoxy and postulate that cooperatives objectives may go far beyond economic ones, even these strands make the implicit assumption that such objectives must be sufficiently widely shared by cooperative members (e.g. Borzaga et al., 2011).

In our current context, the assumption of high uniformity of cooperative objectives is closely tied to moral perspectives on cooperatives, as exemplified by Novkovic et al.'s (2022) characterization of cooperatives as 'associations of members with shared needs and goals'. Yet, the contribution of the managerial perspectives is precisely in pointing out that if the needs and goals of members were in fact highly uniform, maintenance organizations costs in cooperatives would be minimal. In today's cooperative literature, this point has been famously articulated by Hansmann (1996). He acknowledged that the lack of uniformity in members' needs and goals directly leads to high collective decision-making costs within cooperatives, thus complicating their management and governance.

The current Luhmannian scholarship has addressed these challenges by conceptualizing cooperatives as complexity-reducing systems embedded in their societal environment, which includes members as whole individuals (Iliopoulos & Valentinov, 2018). This perspective also locates the core systemic operation of cooperatives in the provision of services to members, as long as these services align with members' shared interests (Iliopoulos & Valentinov, 2018). This Luhmannian conceptualization leads to the assumption that cooperatives, as complexity-reducing systems, tend to expand their operations indefinitely, ultimately surpassing the carrying capacity of their societal environment. Since members are part of the cooperative's environment, it follows that 'if cooperatives were fully sensitive to the environment, they would not exceed the true range of common interests among members' (Iliopoulos & Valentinov, 2018, p. 5). These common interests thus serve as a limit to the environmental carrying capacity of cooperatives. Accordingly, just as many types of social systems tend to expand their operations beyond the limits of the environmental carrying capacity, cooperatives often engage in delivering services to members without ensuring that these services indeed correspond to the members' common interests. In such cases, cooperatives are likely to encounter managerial challenges, such as growing problems with member preference heterogeneity (Iliopoulos & Valentinov, 2018).

Based on the above exposition, we see that the Luhmannian systems-theoretical perspective reveals a shared foundation between cooperatives and corporate business ethics practices, such as CSR and managing for stakeholders. Firstly, both cooperatives and business ethics practices aim to enhance the sensitivity of the capitalistic economic system to the broader societal environment, addressing a wide range of human needs beyond the scope of profit-driven investor-owned firms. Secondly, by questioning the inherent complexity-reducing nature of the capitalistic economic system, cooperatives and

business ethics practices encounter similar challenges regarding economic sustainability.

Although business ethics practices often grapple with economic challenges, as seen in the disparity between the business and moral cases, similar issues within cooperatives have received less attention. While cooperative scholars recognize that cooperatives may face adversarial institutional environments leading to incongruent isomorphism (Novkovic, 2022), they have not explicitly connected the economic sustainability challenges of cooperatives to corporate business ethics practices. These parallels, however, are crucial for reconciling the moral and managerial perspectives on cooperatives. They indicate that cooperatives hold moral significance by challenging the capitalist economic system while dealing with issues emphasized by managerial perspectives, such as maintenance organizational costs. In essence, if challenging the capitalist system is the moral case for cooperatives, the prominence of maintenance organizational costs suggests their limited business case. In other words, by challenging the capitalist system, cooperatives are unlikely to gain business advantages for themselves.

4 | A LUHMANNIAN VIEW OF THE DEBATE BETWEEN THE MORAL AND MANAGERIAL PERSPECTIVES

The existence of the parallels between cooperatives and corporate business ethics practices not only invites a reconsideration of cooperatives from a business ethics perspective, as highlighted by Waldner and Rasche (2023), but also calls for a re-evaluation of the contemporary understanding of the double nature of cooperatives. Novkovic et al. (2022) propose a fresh conceptualization of this double nature by framing it within the economic philosophy of associationism. According to this perspective, cooperatives are viewed as ‘associations of members with shared needs and goals’ that emphasize social relations and collective action while employing a business enterprise as the means to achieve their common objectives. Novkovic et al. (2022) identify five attributes that characterize the associationist structure of cooperatives: joint purpose, joint member contributions, joint ownership, joint decision making and control and joint benefit. These attributes stand in stark contrast to the transactional characteristics of capitalist enterprises while fostering what the authors refer to as ‘associative intelligence’ (Novkovic et al., 2022). By enabling the synergistic nature of the cooperative double nature, these attributes present a genuine challenge to the prevailing capitalist economic system.

Building upon our systems-theoretic perspective, which underscores the similarities between corporate business ethics practices and cooperatives, we argue that the five attributes of the associationist nature of cooperatives not only pose a challenge to the capitalist economic system but also give rise to distinct issues regarding the economic sustainability of cooperatives. These issues align closely with the various forms of maintenance organizational costs discussed in the managerial perspective presented by Iliopoulos and Cook (2023). We can consider this alignment as the existence of a limited business case for the moral case, as established in the broader business ethics literature. In line with this idea, Table 1 illustrates how the specific attributes of the associationist nature of cooperatives correspond to different components of management and organizational costs. The table is structured following the elaboration of the associationist attributes of cooperatives by Novkovic et al. (2022) and juxtaposes them with the varieties of maintenance and organizational costs outlined by Iliopoulos and Cook (2023).

The table reveals that the first attribute, joint purpose, is unachievable without trust and shared values (Novkovic et al., 2022). While necessary, these prerequisites alone are insufficient for successful cooperation (Ostrom, 1990). In agricultural cooperatives, the diverse member preferences complicate the identification and cultivation of a shared purpose, requiring strategic management (Cook, 2018; Iliopoulos & Valentinov, 2022). Establishing a common purpose necessitates understanding the cooperative's multifaceted membership and overcoming divergent preferences that hinder collective goals (Hansmann, 1996). The assumption that ethical values alone will unite members is overly optimistic; it requires cooperative genius and adaptability for longevity (Cook, 2018; Iliopoulos & Valentinov, 2018). Without these capabilities, heterogeneity can lead to high organizational costs and the demise of cooperatives (Fulton & Hueth, 2009; Iliopoulos & Cook, 2023).

The second attribute, collective contributions, requires individual decisions within cooperatives (Novkovic et al., 2022). Challenges, such as illicit trade practices and organizational costs, hinder the realization of collective outcomes surpassing individual contributions (Cook, 2018). Scholarly literature and empirical research indicate suboptimal individual inputs due to free-riding, limited investment horizons and portfolio constraints (Cook, 1995; Cook & Iliopoulos, 2000). The third attribute, collective ownership (Novkovic et al., 2022), is inevitably linked to risk-bearing constraints. For Western agricultural cooperatives, the primary issue here is how the accumulation of unallocated equity through capitalization and profit retention may

TABLE 1 Moral impacts and managerial challenges of the associationist elements of the cooperative enterprise model.

Associationist roots (Novkovic et al., 2022)	Moral content	Managerial challenges linked to maintenance organizational costs (MOCs) (Iliopoulos & Cook, 2023)
Collective purpose	Promotion of mutual self-help, solidarity, trust, associative intelligence	Heterogeneity of preferences may cause friction related to the definition of the collective purpose
Collective contributions	Promotion of common action for shared goals and self-responsibility	Costs of risk bearing
Collective ownership	Promotion of priority of patronage over ownership; enabling collective capital and intergenerational transfer	Costs of risk bearing and the resulting distortion of financial incentives; undercapitalization due to underinvestment
Collective decision-making and control	Promotion of democratic control and deliberation; ensuring people-centred governance and member sovereignty	Costs of controlling managers; costs of collective decision-making
Collective benefit	Co-production of relational goods for the benefit of all members and broader community. Care for the community and ethical values result in positive and broad social, economic and environmental benefit	Costs of collective decision-making; costs of securing strategic investments; frictions induced by heterogeneity of member preferences

lead to violating service-at-cost principles, weakening member ownership, reducing control, encouraging free-riding and posing challenges during liquidation or mergers (Cobia, 1989; Kenkel, 2015). Some cooperatives,

such as Irish dairy cooperatives in the 1980s, converted into investor-owned firms due to these problems (Briscoe et al., 2012). Another issue is the generational change in cooperatives that discourages current members from investing significant risk capital due to the expectation that benefits primarily benefit future generations, leading to internal free rider behaviour (Cook & Iliopoulos, 2000). The fourth attribute, collective decision-making and control (Novkovic et al., 2022), is only effective if democracy is exercised within clear rules that are aligned with ownership and control rights (Reynolds, 1997). However, dispersed ownership often leads to divergent opinions, increasing the costs of collective decision-making, control of management behaviour and conflict resolution (Hansmann, 1996; Iliopoulos & Cook, 2023). Tailored decision-making policies, like proportional voting based on patronage, are crucial for mitigating these challenges (Reynolds, 1997). The fifth attribute is collective benefit (Novkovic et al., 2022), which likewise leads to collective decision-making costs, which make complicate the process of securing strategic investments, particularly when member preferences are highly heterogeneous (Chaddad & Iliopoulos, 2013).

5 | MANAGEMENT IMPLICATIONS

The above comparison of the moral and managerial perspectives on cooperatives makes clear that the management implications of these two approaches on cooperatives may generate conflicts in several areas, such as governance, strategy and collaboration. Regarding governance, the moral perspective implies that cooperatives should uphold democratic governance structures that ensure equal participation and representation of members and stakeholders. However, the managerial perspective suggests that cooperatives may face collective decision-making costs that reduce their efficiency and responsiveness to market changes. Furthermore, the managerial perspective suggests that cooperatives might have to align members' residual income and control rights to address inequalities arising from disparities between contributions and benefits received.

Regarding strategy, the moral perspective implies that cooperatives should align their strategic objectives and operational activities with their ethical values and principles, which may entail pursuing social and environmental goals that go beyond their members' interests. However, the managerial perspective suggests that cooperatives may face risk-bearing costs that limit their ability

to invest in innovation and technology, as well as securing strategic investments from external sources. Moreover, the managerial perspective implies that cooperatives may need to adapt to the changing needs and preferences of their members and stakeholders, which may require offering flexible membership options or customized services that increase their operational complexity.

Regarding collaboration, the moral perspective implies that cooperatives should collaborate with other cooperatives and social economy actors to create a critical mass and a collective voice for challenging the dominant logic of capitalism. However, the managerial perspective suggests that cooperatives may face manager control costs that reduce their autonomy and accountability to their members and stakeholders. Moreover, the managerial perspective implies that cooperatives may need to compete with other cooperatives and investor-owned firms in the market, which may reduce their solidarity.

The Luhmannian view on cooperatives can help resolve these conflicts by recognizing the trade-off between the moral case and the business case of cooperatives within the capitalistic system. On this view, cooperatives are complexity-reducing systems that operate within the economic function system but that also enhance the sensitivity and responsiveness of the economic system to the societal environment and the unmet human needs by balancing multiple and diverse objectives, such as economic, social and environmental. This balance implies that cooperatives need to find a compromise between their ethical values and principles, on the one hand, and economic sustainability, on the other. If this compromise is successful, it may allow to reframe the double nature of cooperatives as an opportunity rather than a challenge. While this double nature is often seen as a managerial challenge arising from the need to navigate the tension between the economic and non-economic characteristics of cooperatives, the Luhmannian view re-contextualizes economic sustainability as an instrumental tool for achieving the cooperative's social objectives. Defined within this view, economic sustainability of cooperatives refers to their capacity to generate and maintain sufficient financial resources to support their operations and fulfil their social mission over the long term by ensuring profitability, managing financial risks and maintaining liquidity while also upholding the cooperative's ethical values and principles. Within this view, economic sustainability serves as a means to an end rather than an end in itself and as an enabler of the cooperative's broader social objectives, whether they be mutualistic, focused on meeting the needs and ensuring equitable distribution among

members, or social, aimed at benefiting the community or society at large.

Regarding governance, the Luhmannian view suggests that cooperatives need to find a compromise between democratic governance structures that ensure equal participation and representation of members and stakeholders and efficient governance structures that ensure responsiveness and adaptability to market changes. This may require designing appropriate governance mechanisms that balance the power and influence of different groups of members and stakeholders, as well as ensuring transparency and accountability in decision-making processes. This means that whereas the moral perspective establishes the foundational principles and norms that guide cooperative governance and decision-making, the managerial perspective assumes the responsibility for translating these fundamental principles into practical operational strategies and structures. While the moral perspective sets the overarching goals, the managerial perspective focuses on the implementation of these goals in a manner that optimizes organizational efficiency and effectiveness. For instance, the moral perspective advocates for democratic decision-making processes that prioritize equal participation and representation of members. However, the managerial perspective may recognize the practical challenges of implementing direct democracy and opt for representative democracy instead. This strategic decision balances the need for inclusivity with the imperative of operational efficiency, ensuring that decision-making processes remain manageable and conducive to effective governance. Similarly, in matters of managerial accountability, the moral perspective underscores the importance of transparency and member oversight. However, the managerial perspective may introduce mechanisms, such as managerial appointments by the cooperative's directors, to safeguard managerial autonomy and shield managers from undue pressure or interference from members. While this approach may appear to compromise democratic ideals, it serves the pragmatic purpose of enabling managers to execute their responsibilities impartially and without fear of reprisal.

Regarding strategy, the Luhmannian view suggests that cooperatives need to find a compromise between aligning their strategic objectives and operational activities with their ethical values and principles and ensuring their economic sustainability in the market. At the core of this compromise is the idea that the pursuit of economic sustainability by cooperatives serves as a foundational prerequisite for their survival and continued existence. For example, insofar as investments in innovation, whether technological or organizational, contribute towards the economic sustainability of cooperatives,

they help establish a solid operational framework that can withstand external pressures and navigate the complexities of the market environment. These investments become, in this case, necessary conditions that lay the groundwork for the cooperative's long-term resilience and adaptability. Once these necessary conditions for economic sustainability are met, cooperatives can then extend their focus to pursue broader social and environmental sustainability objectives, in alignment with their moral principles and ethical values. In essence, cooperatives can realize their double nature by integrating economic, social and environmental sustainability objectives, with economic sustainability as a prerequisite for achieving broader sustainability objectives.

Regarding collaboration, the Luhmannian view recognizes the need for cooperatives to find a compromise between collaborating with other cooperatives and social economy actors to create a critical mass and a collective voice for challenging the dominant logic of capitalism and competing with other cooperatives and investor-owned firms in the market. This may require building networks and alliances that foster mutual support and learning, as well as differentiating themselves from other actors based on their ethical values and principles. This Luhmannian perspective on collaboration resonates with the argument that cooperatives present a distinct economic coordination mechanism that relies on trust and reciprocity (Borzaga & Tortia, 2017) and thus induces a higher propensity to collaborate with one another and a lower inclination to engage in competitive dynamics, especially when compared to investor-oriented firms. For example, the analysis conducted by Tortia and Sacchetti (2023) on financial cooperative networks across the Netherlands, Canada and Italy highlights several findings that underscore the distinctive pattern of behaviour exhibited by cooperatives, particularly in contrast to investor-oriented firms. For one, these financial cooperatives demonstrate a strong degree of local embeddedness within their respective communities. Furthermore, within these cooperatives, horizontal coordination among individuals and organizations prevails over vertical relationships (Tortia & Sacchetti, 2023). As a result, these cooperatives demonstrate a preference for cooperation over competition in their development patterns. While occasional competition may arise, cooperation is the predominant strategy pursued by these cooperatives (Tortia & Sacchetti, 2023). Tortia and Sacchetti's (2023) findings enrich the proposed Luhmannian view of collaboration with the important management implication that, by projecting their internal norms and strategies onto their external behaviour, cooperatives may foster a culture of collaboration and solidarity that strengthens the cooperative

movement and advances the interests of their members and communities.

6 | CONCLUSION

In the present paper, we problematize the precarious co-existence of moral and managerial perspectives on cooperatives. This co-existence produces puzzling conceptual gaps, such as a lack of moral value in managerial efforts to control maintenance organizational costs or unclear business impact of cooperatives positioning themselves as alternatives to the capitalist system. To reconcile the disparity between moral and managerial perspectives, we propose adopting a Luhmannian systems-theoretic approach. This approach sheds light on how both cooperatives and shareholder capitalism are affected by similar challenges in managing their relationships with the surrounding environment.

Fundamentally, the Luhmannian approach recognizes an inevitable discrepancy between the business case, which reflects the operations of the complexity-reducing economic function system, and the moral case, which reflects the state of the societal environment. Applying the Luhmannian approach leads us to view maintenance organizational costs in cooperatives as evidence of precisely this type of discrepancy for cooperatives attempting to provide a sustainable alternative to shareholder capitalism. We show that, by pursuing this moral case, cooperatives bear the burden of maintenance organizational costs that pose a threat to their business success and thus require managerial response. The nature of this response, as may be inferred from the Luhmannian approach, is that cooperatives need to leverage their moral case as a source of competitive advantage within the capitalistic system while also mitigating their economic sustainability challenges due to their limited business case. This is, in brief, a Luhmannian resolution of the debate between the moral and managerial perspectives on cooperatives.

A possible limitation of our argument is that the disparity between moral and managerial perspectives on cooperatives may, in many cases, partake of a nature of an academic artefact rather than an accurate description of practical thinking of many cooperative actors. We admit the possibility that, in the practical operation of many cooperatives, the distinction between these perspectives may not be as clear-cut as it is in some of the more heated academic debates. Many cooperatives, in fact, are quite successful in adopting an integrative strategic approach that combines moral and managerial elements in their governance, strategy, and collaboration. For example, some cooperatives may use participatory

methods to involve their members and stakeholders in decision-making processes while also employing professional managers to ensure operational efficiency and effectiveness. Some cooperatives may pursue social and environmental goals that align with their ethical values and principles while also seeking economic sustainability and competitiveness in the market. Some cooperatives may collaborate with other cooperatives and social economy actors to create a critical mass and a collective voice for challenging the dominant logic of capitalism while also competing with other cooperatives and investor-owned firms.

In view of this limitation, our Luhmannian perspective suggests that understanding these cooperative practices requires a redoubled academic sense-making effort. On the one hand, there is the need to examine how cooperatives cope with the trade-off between the moral case and the business case in different contexts and sectors and how they balance the conflicting demands and expectations of their members, stakeholders and the environment. Such studies could also explore the diversity of cooperative practices and experiences and identify the factors that enable or constrain the success and sustainability of cooperatives. Such studies could also investigate the impact and outcomes of cooperative actions and initiatives on the economic, social and environmental systems and assess the extent and limits of their contribution to social change and transformation. On the other hand, there is the need for studies that examine how cooperatives practically leverage their moral case as a source of competitive advantage. Towards this end, both theoretical and empirical works are needed to figure out how cooperatives may find a balance between democratic governance structures and efficient decision-making processes. Comparative studies across different cooperatives and sectors could shed light on the effectiveness of various governance arrangements in this respect. No less important is further theoretical and empirical research on the multiple dimensions of the economic sustainability of cooperatives. This concept may encompass not only financial viability but also considerations of long-term resilience, adaptability and capacity-building, each of which may affect the contribution of cooperatives towards social change and transformation.

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