

# Governance: Membership Structure Design and Organizational Theory\*

□ Thomas W. Gray, Ph.D.\*\*

- \*Presentation to the International Co-operative Governance Symposium, Halifax, Canada. September 5-7, 2013. This presentation re-visits earlier work by Butler, and Gray and Butler.
- \*\*Rural Sociologist, USDA-Cooperative Programs and Center Scholar, Center for Study of Cooperatives, University of Saskatchewan.

# Democracy//Business Tension

When we talk about cooperative governance we are talking about at least in part:

- Of course both are needed.
- As a sociologist I tend to work on the democracy side of the tension.
- There are three levels of analysis sociologists tend to work at, the micro, meso or organization levels, and the macro level.
- A lot of work has been done on member participation at the micro level, or on what “individuals” think, believe, feel, do; as related to their participation in cooperatives (and in my work predominantly in agricultural cooperatives).
- Authors doing the most recent work in this area are Peter Osterberg and Jerker Nilsson at the University of Agricultural Sciences in Sweden, and Sanjib Bhuyan, an agricultural economist at Rutgers.
- This work is sometimes referred to as “the member relations paradigm.”

## Membership from an organizational view: the meso level

- Today I'm going to focus more at the meso or organizational level and how to understand the construction of membership structure, a structure with three functions and two environments. This governance symposium permits a re-visiting of earlier work by Butler, and Gray and Butler. The renewal of this work is badly needed, given the unabated and continued deepening of complexity of large agricultural cooperatives. A Google Scholar search produces no parallel work.
- The presentation basically will have two parts
- Part I. I'm going to present an introduction to **an** organizational theory, i.e. contingency theory, drawing upon Mintzberg,
- and in Part 2, I'm going to be developing a series of propositions, or axioms about the design of membership structures.

# Introducing Organizational Concepts as Applied to Membership Structural Design



- In **Part I**, in introducing organizational concepts, I'm going to be drawing from a table that looks like this (see following slide).

# Table I- Structural Design Options Given Environmental Sources of Uncertainty

## □ Environmental Sources of Uncertainty

### □ Quantitative Complexity and/or Diversity

- ▣ Lots of similar demands
- ▣ Lots of dissimilar demands

### □ Technical Complexity

### □ Stability/Instability

## □ Structural Design Options

### □ Horizontal Divisions (Horizontal Differentiation)

### □ Departmentalization

### □ Delegation of Authority

### □ Vertical levels (Vertical Differentiation)


### □ Task Specialization

### □ Delegation of Authority

- ▣ Centralization

### □ Standardization of Information Flows

### □ Ad hoc and Formal Communications

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- In Part 2, I'm going to be developing propositions that look like this:
  - 1) The greater the complexity of the farmer environment, the greater the delegation of authority to a board.

or

9) The greater the specialization of the board, the greater the oversight and policymaking possibilities.

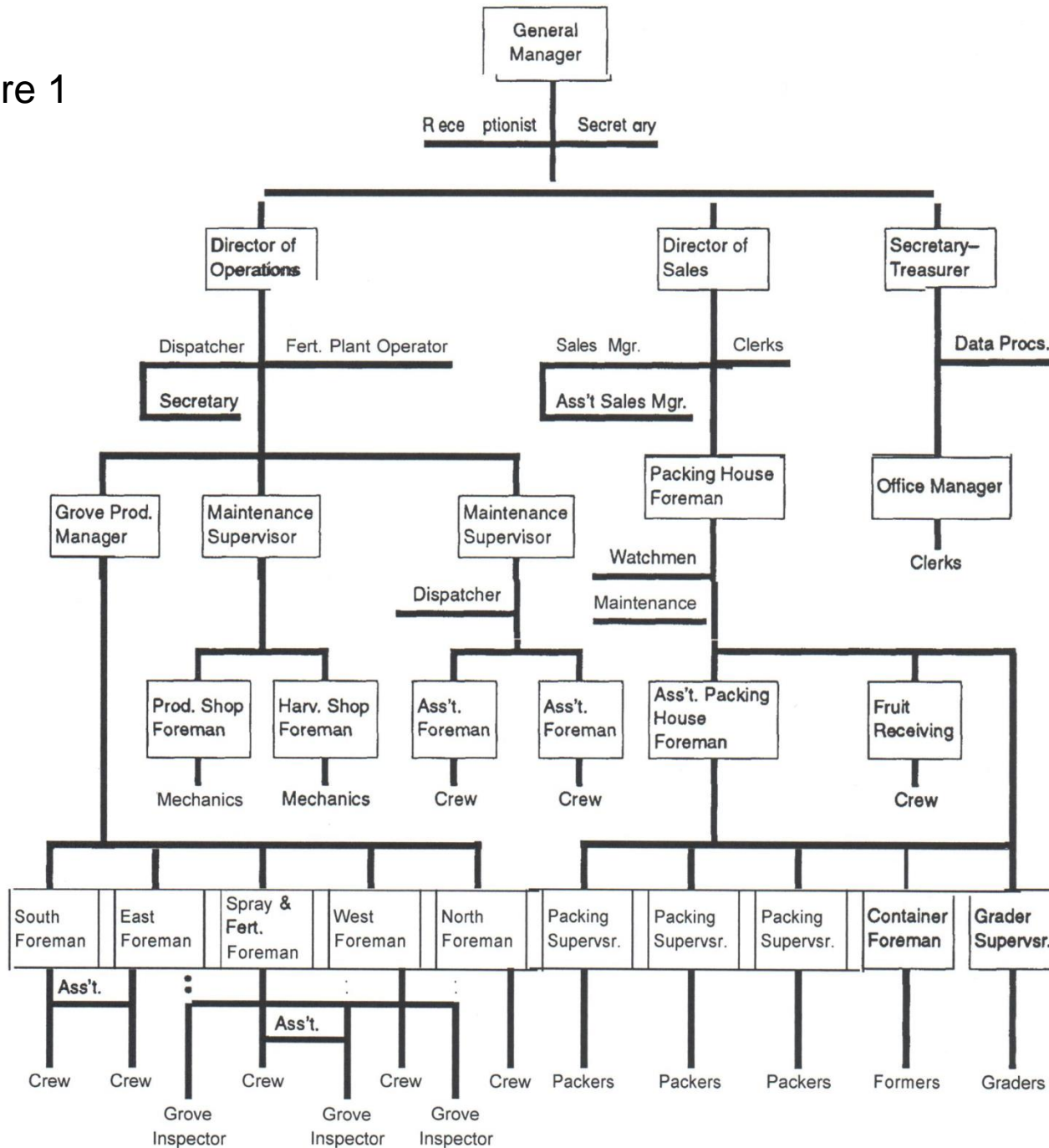
The focus is on agricultural cooperatives.

# Meso Level, Organizational View: Size, Complexity

is different from the micro or individual level focus and concerns specifically about how to get people to meetings.

- Cooperatives have made dramatic increases in size and complexity over the last 50 years.
- Most agricultural cooperatives began as relatively small, single product organizations. As such they were highly accessible to and easily understood by members.
- However, many have since grown into large multi-product businesses using sophisticated technologies and serving large geographic territories.
- So we have structures that looks like the following, and this is a relatively simple structure.

Figure 1





## Meso Level; Organizational View:

- With organizations developing in this manner, i.e. with increasing complexity, members can become distant from the organization and participation frequently declines.
- How to organize for democratic input “from an organizational perspective” is less clear, particularly when cooperative businesses have become bureaucratically complex, and membership numbers have moved into the thousands. **Encouraging people to get to meetings is important, but may not be enough**, i.e. using the member relations paradigm.
- Organizational theory, and contingency theory, are drawn upon to provide a somewhat different lens.

# Meso Level, Organizational View: Specialization and Coordination

- Relying on Mintzberg, formal organization is seen as developing out of two dynamics; specialization and coordination.
- Coordination occurs with specialization. Specialization allows some tasks to be completed more efficiently. Coordination brings tasks together in an overall pursuit of organizational goals. The interplay of these two tendencies defines organizational structure (Mintzberg).

So a lot of what the following structure is about is specialization and coordination.



# Contingency Theory: Different Structures for Different Environments

- So the problematic here is organizational design
- “Contingency theory argues that different organizational structures [specializations and coordinations] are required for different organizational contexts [i.e. different environments] (Hage and Finsterbusch)”
- Stressors in an environment create uncertainty that can interfere with meeting organizational goals and objectives.
- Therefore how the structure is designed, needs to be in accommodation with an organization's environment.

# Table I- Structural Design Options Given Environmental Sources of Uncertainty (so we give this table some attention)

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- ▣ Centralization

### □ Standardization of Information Flows

### □ Ad hoc and Informal Communications

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- Note: So while these organizational design concepts are generally applied to management and operations structures, they can be applied to organizational democracies as well.



## Figure 4: Structuring of an Organizational Democracy (Narrative)

- Figure 4 depicts a membership structure with departments specialized by function-young couples groups, resolutions/districting committees, and delegate body-and by geographic district and region.
- The structural task of these departments is specialization.
- When several departments are created, the organization is strung out horizontally (horizontal differentiation).
- The “young couples committee” also coordinates the various “young couples groups.” The board of directors coordinates efforts of the resolutions/district committee, and various committees shown.
- These departments add height to organizational charts vertically (vertical differentiation).

□



# Figure 4: Structuring of an Organizational Democracy

(Narrative)

- Membership structures also have task specializations such as board officers, advisory committee members, resolutions committee members, like production managers, clerks, and mechanics in management and operations.
- Both use delegations of authorities, though a bureaucracy may delegate to the finance department, decisions about which applicant gets credit,
- a member structure may delegate responsibility for oversight of the credit decisions to its finance committee.

# Part 11: Development of a Proposition list for Designing Membership Structures



- As state previously, “a” purpose of this paper is to develop the outlines of a theory of membership structure design in axiom format. Axiomatic approaches are frequently useful in introducing language and different levels of analysis. They can help bring conciseness and provide direction to anticipated future work and research. The attempt here is to formalize understandings of membership structure design.

If we look at Original Cooperative Structurings: As structure has moved from Simplicity to Complexity historically.

- **Original Cooperative Structuring**
- When farmers pool their marketing and purchasing needs in forming cooperatives, they typically encounter complexity problems, both many farmers having the same needs, and many farmers having different needs.
- Specializations and various coordinations need to occur.
- Members delegate authority as we know to a board of directors.
- When this delegation takes place, a membership structure begins to take shape, separate from the members themselves. And this is what I am seeking to emphasize here. The gradual creation of membership structure. It becomes an organization in of itself.
- The board, as a body, is delegated authority for managing the cooperative, bringing coordination to the several both different and similar member interests.

# Original Cooperative Structuring: From Simplicity to Complexity

- Members may further delegate to hired management. Historically, agricultural cooperatives were small organizations, providing few, easily understood services for local farmers. The operations component of the organization may have only involved weekly, monthly, or even seasonal management.
- A member of the board of directors might serve as both director and hired manager.
- However, many cooperatives, as mentioned, have since grown into large and complicated organizations; environments are no longer simple; products and services are many and varied. To manage now requires **specialized** knowledge and full-time attention.
- Hiring a full-time professionally trained manager, with delegated authorities may be necessary to bring coordination and technical decision making to a technically complex environment.

# Original Cooperative Structuring: From Simplicity to Complexity and Delegations of Authority



- And aside from responsibilities on the board, the farmer-directors have individual farm businesses to operate.
- Delegation to management can simplify the farmer's task environment.

# Delegations Create Two Environments Relative to a Membership Structure

- These delegations put in place, from the standpoint of initial organizing, a membership structure with two environments,
- **The Members themselves**
- **And Management and Operations**
- These are the environments to an emergent membership structure, that can be understood as being like an organization itself with its own functions.
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# Creating a Membership Structure With Two Environments

(continued)

- The original structurings suggest: (in axiomatic format):
- **1) The greater the complexity of the farmer environment, the greater the delegation of authority to a board.**
- **2) The greater the complexity of the farmer/board environment, the greater the delegation of authority to management and operations.**
- **3) The greater the delegation of authority to management, the greater the loss of direct control by members.**
- It is removed from members to management with over-sight by the board.

# This Emergent Membership Structure will be designed ideally to Perform Representation, Policy Making and Over-sight

- Generally, operational decisions, in part because of their daily quantity and complexity in requiring specialized knowledge, are delegated to management.
- Policymaking and oversight provisions are retained within the membership, but typically delegated to elected representatives, i.e. the board of directors.
- Member control becomes differentiated within the membership structure, and we've been sort of grinding through the various structural design options in part I, depending on whether the goal is **representation, or policy making and/or oversight**,
- Representation functions tend to be most responsive to the member environment and
- Policy making and oversight to the management and operations environment.



# So how do we deal with The Member Environment—( An environment that is quantitatively complex and diverse).

(continued)

- Recall an organization facing a diverse environment can improve its performance (drawing on organizational design theory) if it identifies like segments of its environment and establishes separate structural departments to accommodate that diverse environment.
- These like segments become the basis for dividing the organization into horizontal sections. A marketing cooperative may increase the efficiency of its operations by establishing functional departments for retail, institutional, and international sales.
- **Large membership cooperatives** may have similar members in diverse locations.
- Departmentation can simplify this environment by horizontally dividing the membership on the basis of geography. Officers elected from these divisions are then freer to focus their attention on articulating concerns of respective segments of the membership.

# So how do we deal with the Member Environment—(An environment that is quantitatively complex and diverse). (1/3)

- This strings the structure out horizontally into a series of geographic member districts and divisions.
- Other bases of representation are possible. Members might be divided by type or size of farming operation or membership tenure.
- In terms of our theory development:
- **4) The greater the diversity in membership (large clusters with dissimilar characteristics), the greater the need for horizontal division into departments.**
- **5) The larger the membership quantitatively (large numbers with similar characteristics), the greater the need for horizontal divisions into departments.**
- **6) The greater the number of horizontal departments, the greater the potential for member representation.**

# So how do we deal with Structuring for the Management and Operations Environment: (continued 2/3)

- Technical Complexity
- As cooperative operations add new products, services, commodities, technologies, and market areas, the membership structure, i.e. the organization of members, is presented with an increasingly complex management environment.
- Member control at the board level-oversight and policymaking-can be challenging. Loss of member control may occur as directors are unable to process increasingly more complex information.
- Contingency theory suggests this complex environment may be simplified with job and/or task specializations.
- Oversight and policymaking may be enhanced by using specialized committees, for example, that deal with specific commodities, markets, or single aspects of operations (e.g., finance, member relations, and marketing).

# So how do we deal with Structuring for the Management and Operations Environment (continued 3/3).

- In axiomatic form, a contingency approach suggests:
- **7) The greater the complexity of management and operations, and the greater the delegation of authority to management, the greater the loss of direct control by members.**
- **8) The greater the delegation of authority to management and operations, and the greater the use of specializations within the board;**
- **9) the greater the specialization of the board, the greater the oversight and policymaking potentials.**
- Recall table 1 and issues of stability and instability:

# Table I- (if we notice this table one more time) Structural Design Options Given Environmental Sources of Uncertainty

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# Member and Management Environments: Stability/instability

- **Stable Environments:** (start) Some organizations operate in relatively unchanging conditions, selling the same products to the same members, over time. Other organizations face rapidly changing circumstances.
- In a stable environment, an organization can standardize many of its activities to achieve coordination and predictability.
- **Unstable Environments:** In unstable environments, there is less opportunity to standardize because new situations constantly occur that do not conform to the rules. The organization must remain flexible to adapt quickly to new circumstances, such as
- irregular price movements, member turnover, urbanization, unpredictable demand in international markets, changing government policies, to mention a few.

# Member and Management Environments: Stability/instability

- Member control in large part is facilitated by availability of communication channels. If communication cannot occur during critical periods, member input cannot occur.
- Various ad hoc communications options such as temporary committees, surveys, and farm visits can allow access and coordination. A contingency theory approach suggests:
- **10) The greater the stability in a member structure environment, the greater the use of standardization options, [e.g. established procedures for nominating candidates, making resolutions, notifying members of meetings, etc] the greater the potential of member control possibilities.**

# Member and Management Environments: Stability/instability

- **11) The greater the instability in a member structure environment, the greater the use of ad hoc communications options [e.g. temporary committees, survey instruments] the greater the member control possibilities.**



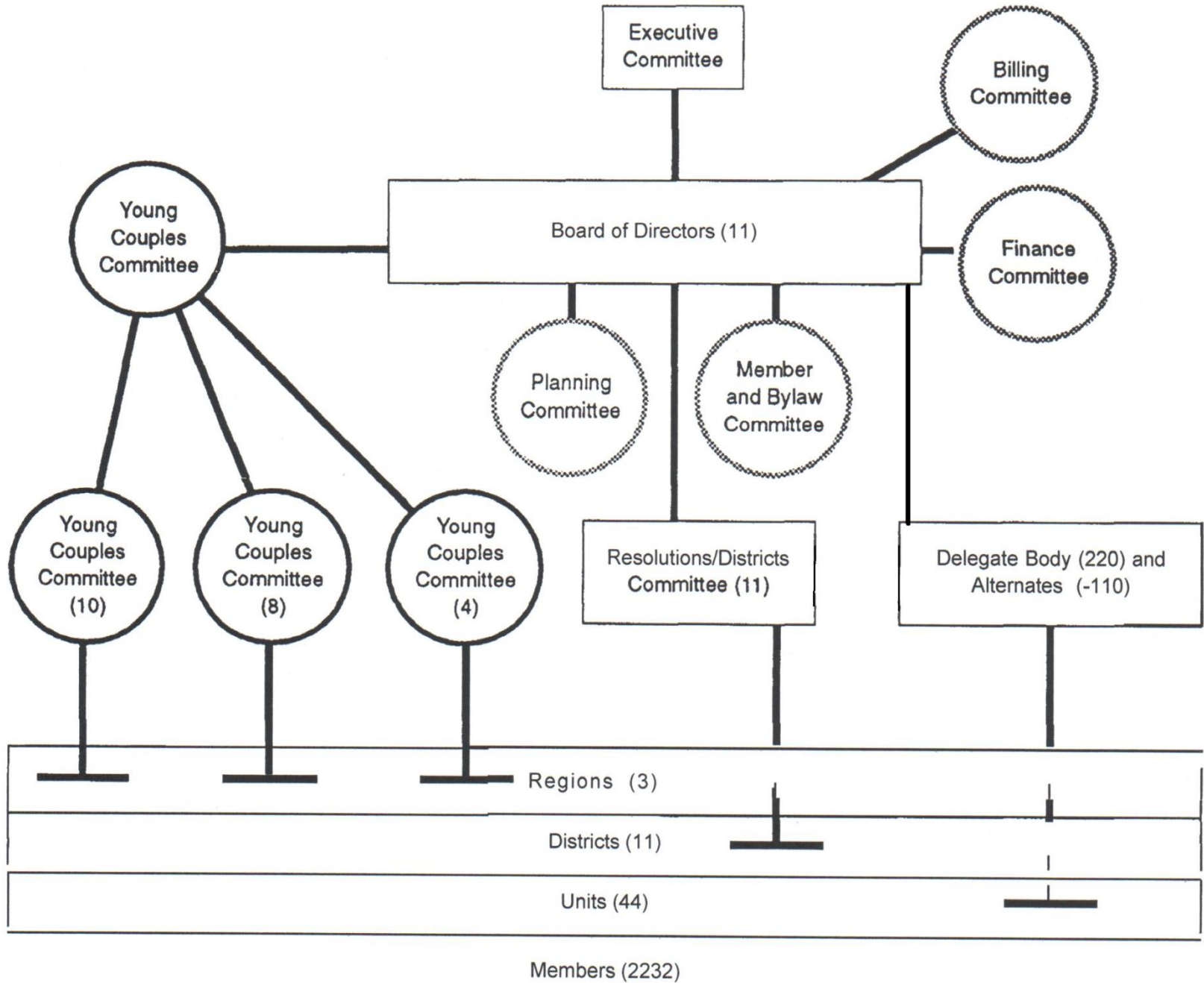
# The Internal Environment: Adjusting to Size and The Internal Environment

- As numbers and diversity of membership increases, need for greater horizontal differentiation occurs. However, large numbers of horizontal departments present coordination problems. An organization itself can have too many department.
- Departments need to be coordinated with vertical differentiations. Contingency theory suggests the following propositions:
- **12) The greater the number of horizontal departments created, the greater the need for coordinating vertical departments.**
- **13) The greater the number of horizontal and vertical departmentalizations within a membership structure, the greater the possibilities for representation.**
- up to a limit...

# The Internal Environment: Adjusting to Size and Internal Complexity

- The greater the horizontal and vertical differentiations in a structure, the more complex it is.
- The structure itself may block contact between the individual members and oversight and policymaking centers.
- Creating alternative paths from members to the board can mediate some of this complexity.
- Separate functional pathways (hierarchies), such as a resolutions path, a delegate path, and a young member program path, can increase alternatives.
- See Figure 4

Figure 4— Member Structure




# The Internal Environment: Adjusting to Size and Internal Complexity

- Environmental contingency approach suggests:
- **14) The greater the complexity of the membership structure, the greater the need for specialization of pathways from the bottom to the top, e.g. resolutions path, young member program path.**
- **15) The greater the specialization of alternative paths, the greater the possibilities for member representation.**

# Adjusting to Size and the Internal Environment



- Ultimately, the structure acts as a limit on itself, generating the following proposition:
- 16) Internal structural complexity (both quantitative and qualitative) imposes limits on the structure of horizontal and vertical differentiations to be effective in connection with either environment.

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- Using the language and concepts of organizational design, and following the development of cooperatives from simple to complex organizations, the following propositions are derived.


# Axiomatic Proposition List

- Proposition List:
- 1) The greater the complexity of the farmer environment, the greater the delegation of authority to a board.
- 2) The greater the complexity of the farmer/board environment, the greater the delegation of authority to management and operations.
- 3) The greater the delegation of authority to management, the greater the loss of direct control by members.
- 4) The greater the diversity in membership (large numbers of dissimilar characteristics), the greater the need for horizontal divisions into departments.
- 5) The larger the membership quantitatively (large numbers with similar characteristic), the greater the need for horizontal divisions into departments.
- 6) The greater the number of horizontal departments, the greater the possibilities for representation.
- 7) The greater the complexity of management and operations, the greater the relative delegation of authority to management, the greater the subsequent loss of direct control by members.
- 8) The greater the delegation of authority to management and operations, the greater the use of specialization of the board.

# Axiomatic Proposition List

- 9) The greater the specialization of the board, the greater the oversight and policymaking possibilities.
- 10) The greater the stability in a member structure environment, the greater the use of standardization options, the greater the certainty of member-control possibilities.
- 11) The greater the instability in a member structure environment, the
- greater the use of ad hoc communications options, the greater the member control possibilities.
- 12) The greater the number of horizontal departments created, the greater the need for coordinating vertical departments.
- 13) The greater the number of horizontal and vertical departmentations, the greater the possibilities for representation.
- 14) The greater the complexity of the membership structure, the greater the need for specialization of department hierarchies.
- 15) The greater the specialization of department hierarchies, the greater the possibilities for member representation.
- 16) Internal structural complexity (both quantitative and qualitative) ‘imposes limits on horizontal and vertical differentiations, departmentations, and specializations.
- These propositions should be considered a group-as a theory-for understanding the design of membership structure.



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- In an earlier study on some smaller organizations we found that Propositions 2, 5, 8, and 10 held.
  - However our purposes here (see next slide)

# Conclusion



- The point is really not to present an empirical study,
- but rather is an attempt to formalize a set of conceptions, a theory if you will, concerned with designing membership structures in large cooperatives, as informed by organizational theory, or one of its theories.
- Membership structure is like an organization with three functions, representation, over-sight, and policy making, and two environments, the members themselves, and management and operations.
- When viewed from the lens of organization, analysis may be able to suggest design-options that help guide the creation of positions and structures for member control, beyond various member relations programs seeking to improve attendance at meetings.