

Member Commitment in Co-operatives: The Utilitarian Approach

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Abstract

Research on co-operative organizations has posited member commitment to the co-operative as a critical issue for sustainable and successful co-operation. A review of literature on member commitment reveals that a variety of antecedents for a need to, desire to, or obligation to maintain their patronage have been identified. The purpose of this paper is to gather together existing ideas that have been put forward aligning with the utilitarian approach to member commitment. In other words, this paper provides a framework valuable for future research and practice on the topic. The main intellectual contribution is that this paper provides an advanced outline and additional rigor to the map of sources for utilitarian commitment in the context of co-operative organizations.

Keywords: Co-operative, Membership, Utilitarian commitment, Continuance commitment, Calculative commitment

1. Introduction

Member commitment is seen as a qualitative feature of a member's relationship with her/his co-operative (Byrne, McCarthy, Ward, & McMurtry, 2012; Fulton & Giannakas, 2001; Stephenson, 1967) – the co-operative society in particular being the object of commitment (Jiménez, Martí, & Ortiz, 2010; cf. Becker, 1992). Further, member commitment is seen as a *voluntary* individual state, which means it cannot be forced (Fulton & Adamowicz, 1993). To some extent, it is also a measure of how well the co-operative has been able to (in the member's perception) differentiate itself from investor-owned firms (later referred to as IOFs). In this sense, it is something that particularly relates to being a member and does not involve non-members (Fulton, 1999). Importantly, member commitment is considered to be manifested in continuance of patronage and affiliation with the co-operative (Jiménez et al., 2010; Fulton & Adamowicz, 1993). In other words, member commitment can be generally seen as a variable that captures the extent to which the member is likely to choose maintaining her/his membership (patronage) in the co-operative.

More specifically, member commitment is a state that can be divided into different dimensions (e.g., Jiménez et al., 2010; Byrne & McCarthy, 2005). Most referred forms following the work of Mayer and Allen, (1991) are continuance (utilitarian), affective (attitudinal), and normative (ideological) commitment. They indicate the extent to which the member has a need to, desire to, and/or obligation to remain a member of the co-operative. While there exists research on this important area of co-operative study, the authors are not aware of any study focusing on a single dimension of member commitment to map its antecedents and provide guidance for future research and practice. It is towards these ends this paper is directed.

The paper at hand focuses on continuance commitment, or “utilitarian commitment” as labelled here. The objective of the paper is to organize the conceptual material that is related to utilitarian commitment, so that researchers and practitioners can better understand the individual decision making calculus associated with utilitarian commitment in the context of a co-operative organizations. Co-operatives are, first and foremost, membership-based organizations. They internalize individual and discrete exchanges into a formal organization. Co-operatives rely on long-term and repeated exchange relationships with their members to generate a collective benefit that is greater than the sum of inputs of individual members. On the other hand, the decision to join the co-operative organization is processed at the individual level, where perceptions of individual benefits and costs are key inputs to the projected surplus at the individual level (Jussila, Goel, & Tuominen, 2012). Thus, understanding and organizing this calculus conceptually has immense utility to the study of co-operative organizations, as well as developing practical insights to their formation, organization, and operation. With this objective, the following sections identify the constructs associated with utilitarian commitment in extant literature to explain it. The concluding section provides several suggestions for researchers to advance knowledge in this area, and for co-operative managers wrestling with the challenge of increasing member commitment. This is critical as in various fields around the globe co-operatives occupy a remarkable economic and social role (Jussila et al., 2012) and member commitment is one of the most essential building blocks in the survival and success of these organizations (Österberg & Nilsson, 2009; Fulton, 1999).

2. Utilitarian member commitment and its antecedents

The utilitarian approach to commitment is based on “cold calculation of costs and benefits” (Byrne & McCarthy, 2005: 20). It reflects the member’s relationship with the co-operative that is anchored in their ‘need to be’ attached to that particular organization as an outgrowth of the losses that would be incurred by organizational separation, or as a way of preserving accumulated benefits (cf. Mayer & Allen, 1991). Further, it is not only related to a member’s relationship with her/his co-operative. It is also a matter of relative evaluation – a preference for something offered by the co-operative as compared to other service providers (Fulton, 1999). Under this approach, when choosing one alternative (co-operative) from another (IOF), the decision is often assumed to be analyzed at the individual level through utility models where the person’s choice is based on the personal utility yielded by the choice (Fulton & Adamowicz, 1993). The perceived utility may relate to the prices of products or some other attributes associated with the organization (Fulton & Adamowicz, 1993). Thus, utilitarian member commitment is defined in this paper as a variable that captures the extent to which the member is likely to give a positive answer to the question: “*Will co-operative membership (patronage) provide me with more value (rewards minus costs) than what can be achieved by shifting membership (patronage) to some other organization?*”

In order to explain utilitarian member commitment in co-operatives, a distinction must be made between members and non-members. As Fulton (1999) put it, “the source of member commitment is the set of characteristics that appeals to one group of people – the members – but not to another – the non-members (p. 419). In addition, the source of member commitment must be one that makes a distinction between the co-operative and alternative organizations (e.g., IOFs). Different kinds of features that appeal to members and differentiate the co-operative may be the source of member commitment (Fulton, 1999). This applies to competitive situations, when alternatives exist. When alternative service providers do not exist, there is no choice but to continue patronage with the co-operative (or giving up one’s role for example as a farmer). This paper highlights commitment as a voluntary state and, thereby, the availability of services was assumed in the consideration of utilitarian member commitment – thus potential members would join the cooperative only if it satisfies their utilitarian calculus.

2.1 Financial benefits creating the need to stay

Traditionally, economic analysis has dominated the examination of the market actors’ decision to maintain a particular course of action. Fulton and Adamowicz (1993) among others find that co-operative patronage is influenced strongly by economic factors. Also Österberg and Nilsson (200) state that good financial results in the member enterprises are expected to result in commitment.

Price is the most obvious determinant of the focus of action as people are expected to choose the organization that has the best price to offer (Fulton, 1999). Using the services with the best price benefits the user financially: the more use, the more benefit. Fulton and Giannakas (2001) see price as having also a mediating role. They argue that member commitment is likely to be low when the co-operative is unable to maintain production efficiency. This is because higher costs raise prices regardless of the objective pursued by the co-operative. In other words, there is likely to be a positive relationship between production efficiency and member commitment, where price mediates the relationship.

Further, as Fulton and Adamowicz (1993) note, member commitment can also be increased via the sharing of profits. By getting a share of the profit (as dividends or patronage refunds) the member will get additional financial benefits, which an IOF cannot deliver (as the dividends go to external shareholders). In other words, the more the individual member gets as dividends or patronage refunds, the more committed that member will be.

Thus, it is proposed:

Proposition 1a: *There is a positive relationship between price benefits and utilitarian commitment.*

Proposition 1b: *There is a positive relationship between production efficiency and utilitarian commitment.*

Proposition 1c: *The positive relationship between production efficiency and utilitarian commitment is mediated by price benefits.*

Proposition 1d: *There is a positive relationship between dividend payments and patronage refunds and utilitarian commitment.*

2.2 Qualitative product and service benefits creating the need to stay

According to Byrne and McCarthy (2005), utilitarian commitment is also associated with product and service related benefits that are more qualitative in nature. First, quality products and services are typically expected from most organizations and, thereby, they are (in relative terms) critical sources of utilitarian commitment. In other words, the higher the quality of services and products per se, the stronger the member's utilitarian commitment. Second, and as a related issue, Byrne and McCarthy (2005) refer to convenience benefits. The work of Jussila, Tuominen, and Saksä (2008) suggests that in the consumer co-operative context such benefits could be associated for example with a more convenient store location as compared to that of a competing store. In our view, convenience may not only mean better access (shorter distances) or functionality. In the calculus of the member it may turn into tangible financial benefits as the member considers for example the cost savings in terms of time or fuel.

Thus, it is proposed:

Proposition 2a: *There is a positive relationship between qualitative product and service benefits and utilitarian commitment.*

Proposition 2b: *There is a positive relationship between convenience benefits and utilitarian commitment.*

2.3 The co-operative's reputation as the source of utilitarian commitment

While the above sources of commitment are somewhat objective features of the co-operative's offering, there are things that may influence the perceived value of the membership and, thereby, the member's utilitarian commitment to the co-operative. As put forward by Byrne and McCarthy (2005), the perceived value of the products or services offered by the co-operative (and thereby utilitarian commitment) is also affected by the co-operative's communication and marketing activities *constructing* the idea of co-operative difference and advantage. Consistent with this argument, Fulton and Giannakas (2001) propose that member commitment is affected by the extent to which co-operative develops a *reputation* as an efficient agent for the members (see also Jiménez et al., 2010). To earn such reputation, co-operatives should not only choose the objective of maximizing member surplus, but also educate the members and communicate clearly (and repeatedly) about the benefits being offered to members, and how they are delivered (Fulton & Giannakas, 2001). Thus, it can then be proposed that there is a positive relationship between the extent to which the co-operative educates the member and utilitarian commitment (Craig, 1980; in Byrne & McCarthy, 2005).

Thus, it is proposed:

Proposition 3a: *There is a positive relationship between the co-operative's reputation (as being beneficial to the members) and utilitarian commitment.*

Proposition 3b: *The positive relationship between the co-operative's reputation and utilitarian commitment is mediated by perceived member benefits.*

Proposition 3c: There is a positive relationship between the co-operative's marketing activities and utilitarian commitment.

Proposition 3d: There is a positive relationship between the co-operative's communication activities and utilitarian commitment.

Proposition 3e: There is a positive relationship between the co-operative's education activities and utilitarian commitment.

Proposition 3f: The positive relationships between the co-operative's marketing, communication, and education activities and utilitarian commitment are mediated by the co-operative's reputation and perceived member benefits.

2.4 Social and psychological benefits as sources of utilitarian commitment

While the above sources of utilitarian commitment relate to objective or socially constructed target features, extant literature identifies also internal factors of member value (e.g., Birchall & Simmons, 2004; Simmons & Birchall, 2004) and, thereby, sources of utilitarian commitment. In other words, there may be particular social or psychological determinants to the rewards-costs (utility) calculus (Meyer & Allen, 1991). The member may, for example, consider particular social relations in the co-operative personally rewarding, thereby increasing the (relative) value of membership. In addition, some of the internal value could be related to for example the learning experiences typically offer by co-operatives (Byrne & McCarthy, 2005). It is believed that learning experiences may provide satisfaction by providing the member with stimuli and a sense of competence (cf. Jussila & Tuominen, 2010). Further, Fulton (1999) notes that when non-economic factors are in the forefront, organizations with even poor economic performance (i.e., delivering lower economic value) may survive and even thrive. In other words, when the non-economic factors are strong, members may patronize the co-operative even if the price or service of the co-operative is not as good as the ones of alternative firms. Finally, Simmons and Birchall (2004) go as far as arguing that internal factors, such as those making the members feel good about themselves, actually outweigh the external (material) sources of commitment.

Thus, it is proposed:

Proposition 4a: There is a positive relationship between social benefits of membership and utilitarian commitment.

Proposition 4b: There is a positive relationship between psychological benefits of membership and utilitarian commitment.

Proposition 4c: Social and psychological benefits of membership are a stronger predictor of utilitarian commitment than financial benefits and qualitative product and service benefits.

2.5 Expected return on resource investment as the source of utilitarian commitment

Extant literature (Craig, 1980; in Byrne & McCarthy, 2005) seems to identify particular bivariate relationships that make up their own category in the set of sources for utilitarian commitment. That is, one can expect that the more the members invest their own resources (money, time, skills, care, intellect, creativity, etc.) in the co-operative, the more committed they will be to the co-operative in the utilitarian sense, since they would clearly expect the benefits in the future to be worth their investment. The relationship could also be other way, since the more future benefits (utility) the members project in the co-operative, the more they may invest in the co-operative, enhancing their utilitarian commitment.

It seems that reputation of the co-operative plays a role in this calculus as well. Fulton and Giannakas (2001) argue that when the co-operative chooses to maximize profits, member commitment can be expected to be low. We are able to support this argument with the following reasoning. According to Jussila et al. (2008), profit-making and retaining in the co-operative context can be seen as a collective investment to future benefits. However, when the co-operative earns a reputation of being a profit maximizer (at the expense of the members' short-term benefits) and one more likely to retain the profit as opposed to sharing it, the member's expectation of the return on investment (of personal resources) will be lower than in the case where the co-operative chooses an alternative strategy. To put it the other way, when the co-operative has the reputation of an efficient agent of the members, the expected return will be higher and the member's utilitarian commitment will be stronger. Similar line of thinking may apply to Craig's (1980; in Byrne & McCarthy, 2005) notion of a positive relationship between the extent to which the co-operative helps the member in time of need and utilitarian commitment. That is, as the co-operative (or its representative) earns

the reputation of reciprocating in times of trouble, the member will expect a greater return (economic or non-economic) on investment.

Thus, it is proposed:

Proposition 5a: *There is a positive relationship between member's economic investment and utilitarian commitment.*

Proposition 5b: *There is a positive relationship between member's non-economic investment and utilitarian commitment.*

Proposition 5c: *The positive relationship between member's economic or non-economic investment and utilitarian commitment is moderated by the co-operative's reputation.*

2.6 Contextual factors as sources of utilitarian commitment

Several contextual factors have been advanced in literature (e.g., Fulton & Giannakas, 2001; Fulton, 1999; Fulton & Adamowicz, 1993) that are argued or empirically shown to affect members' utilitarian commitment to the co-operatives. Among these factors are age of the members, the role of the co-operative in the member's financial health, size of the co-operative, and heterogeneity of member base

Age of the members. Fulton's (1999) work leads us to believe that for younger members utilitarian considerations are more important than for older members. This kind of a relationship between age and utilitarian commitment is also found in the study of Richards, Klein, and Walburger (1998). Their work suggests that younger members pay very close attention to the expected (mostly material or economic) surplus from their membership. In addition, we believe that younger members may be more risk-seeking, adventurous, and ambitious regarding their financial future, relative to older members, and therefore the (perceived) costs of "shopping around" to them may be much lower than the costs to older members. On the other hand, it is likely that older members may choose to stay because they have invested much of themselves in the co-operative over the years and expect returns on their investment. Further, older members may value non-monetary and intangible social benefits provided by the co-operative organization, and may be less attracted by chasing financial goals. In addition, older members may be more risk-averse, and therefore, they may exaggerate the search costs of new organization and adjustment costs of settling into a new organization, relative to the benefits that they expect from these exertions. Staatz (1989) provides an added contingency to this argument – that of debt load carried by individual members. It is expected for example that farmers with low level of debt, and therefore a low discount rate, will tend to be more loyal to their co-operatives. Since younger farmers tend to have more debt, and therefore a higher discount rate for future opportunities, they are expected to be less loyal to their co-operative (Staatz, 1989).

Thus, it is proposed:

Proposition 6a: *There is a positive relationship between member's age and utilitarian commitment.*

Proposition 6b: *There is a negative relationship between member's age and valuing of material benefits.*

Proposition 6c: *There is a positive relationship between member's age and valuing of social and psychological benefits.*

The role of the co-operative in the member's financial health. Fulton and Adamowicz (1993) see a relationship between the percentage of income of a member's total income originating from the co-operative and the member's utilitarian commitment. In other words, when the co-operative provides a greater share of a member's income, the member's utilitarian calculus favours staying with the co-operative. When members derive a large proportion of their income from the co-operative, they may project that this trend will continue in the future, and may become risk-averse with respect to their membership. This is consistent with prospect theory (Kahneman & Tversky, 1972). This risk-aversion may also mean that they would try to increase their engagement with the co-operative rather than taking risk with new ventures or new organizations with an uncertain income stream. Thus, the net observed effect would be an increased utilitarian commitment to the co-operative.

Thus, it is proposed:

Proposition 6d: *There is a positive relationship between the proportion of member's income that comes from the co-operative and the member's utilitarian commitment.*

Proposition 6e: *The positive relationship between the proportion of member's income that comes from the co-operative and the member's utilitarian commitment is mediated by the member's risk-aversion.*

Size of the co-operative. Extant co-operative literature (e.g., Fulton & Giannakas, 2001) maintains the idea that the smaller and the more local is the co-operative, the higher is utilitarian commitment. The reasoning is that in smaller co-operatives (by the number of members and geographic reach), it is easy for the members to viscerally see how the co-operative is acting, and can act, as their agent. Members are able to map how their wishes and objectives are directly translated into action at the organizational level. To us it seems likely that in smaller co-operatives more members are directly involved in the operation or management of the co-operatives, since smaller co-operatives may not be able to afford hired professional managers. Again, this provides more opportunities for members to reduce the gap between principal and agent, and to observe the collective agent, the co-operative, more closely. This increases transparency in the calculation of costs and benefits, making it easier for the co-operative to earn the reputation of an efficient agent of the members' interests and, thereby, increasing members' utilitarian commitment. Or as Fulton and Giannakas (2001, p. 1264) put it: "When structure makes the co-op appear unable or unwilling to translate member needs into decisions, members of these co-ops are more likely to perceive that the co-op is not acting in their best interests," which may translate into lower utilitarian commitment.

Thus, it is proposed:

Proposition 6f: There is a negative relationship between the size of the co-operative and member's utilitarian commitment.

Proposition 6g: The negative relationship between the size of the co-operative and member's utilitarian commitment is mediated by the co-operative's reputation (as an agent of the members' interests).

Heterogeneity of member base. It has also been argued that heterogeneity in membership is an important predictor of members' utilitarian commitment. Heterogeneity could be associated with size (in smaller co-operatives there is more homogenous membership), but not necessarily. In different co-operatives operating in different contexts there may be several sources of heterogeneity in terms of the members' age, gender, religion, profession, etc. The connection between heterogeneity and utilitarian commitment is, according to Fulton and Giannakas (2001), that as members become more diverse, it is increasingly difficult for co-operatives to demonstrate that they are operating in the best interests of all the members and, thereby, the member's utilitarian commitment decreases.

Thus, it is proposed:

Proposition 6h: There is a negative relationship between heterogeneity of the co-operative's membership base and members' utilitarian commitment.

Proposition 6i: The negative relationship between heterogeneity of the co-operative's membership base and member's utilitarian commitment is mediated by the co-operative's reputation (as an agent of the members' interests).

3. Discussion and conclusion

As maintenance of commitment is a critical and demanding task for co-operatives (Fulton & Adamowicz, 1993), and also a sound basis of a strong and well-functioning co-operative, it is important to understand what member commitment means and how it can be developed. We have identified member commitment as the individual's choice of staying with the co-operative. We have also identified various factors that affect members' utilitarian commitment. Our conceptual organization has the benefit of providing a holistic picture of extant arguments on this issue, which may help advance the conceptual and empirical knowledge on commitment in co-operatives. In addition, it may help the managers of co-operative organizations evaluate their co-operatives, and their strategies and operations, with respect to the effect on member commitment. This paper also advances ideas that may be used to evaluate commitment in a wider variety of organizations via a cost benefit approach involving both tangible and psychological units of value. To the extent that commitment of members of an organization is important to the functioning of the organization, and leads to tangible benefits to the organization and its members, modelling of the context-specific costs for each member, as well as the organization as a whole, is a worthwhile contribution.

A few areas of future research are also evident from our work above. It would appear that utilitarian commitment is an important factor in co-operative success. It is less clear how members evaluate economic and non-economic benefits and costs in a comparative sense. We suggest above that both economic and non-economic benefits and costs are weighed by the members in evaluating their commitment. Future research could further catalogue the specific kinds of non-economic aspects, and their correlates, that members bring into their analysis. Research along these lines could also contribute to the broader knowledge of co-operation and organization. To take the example of identity, it would be fruitful to explore the extent to which members use co-operatives as confirmation of their own identities, and whether this in turn welds the members closer to the co-operative and makes them accept the

idiosyncratic costs of the co-operative, as well as the costs of co-operation. In a practical vein, co-operatives can be on the lookout for opportunities that help them affirm members' identities via co-operatives' strategies and operations.

It is also possible that the importance of pure utilitarian factors vary at different stages of a co-operative's life. For instance, at the co-operative formation stage, the potential members have primarily expectations and projections of benefits and costs, rather than actual data of the benefits. Therefore it is likely that the early stage members are also more entrepreneurial, and have perhaps a greater attitudinal commitment via their relations with other members, and ideological commitment to the cooperative as an organization form. Once the co-operative is functioning well and has a track record of delivering benefits consistently, it is likely that the subsequent members join more for utilitarian reasons than any other, and exhibit utilitarian commitment. These issues can be explored in a longitudinal model, tracing different bases for member commitment among members joining at different stages of the co-operative.

Another key area of future research would be a comparison of different bases of commitment on various individual and collective performance measures. As we pointed out, at least three bases of commitment are mentioned in the literature – utilitarian, attitudinal, and ideological. Each of these could have different implications for co-operative action, time horizon of such action, and co-operative performance on various dimensions, including member satisfaction and member retention. At the same time, we expect the co-operatives to differ in their capability to develop and nurture different dimensions of commitment. These differences could arise from the basis of co-operation (the founding principles), leadership, and characteristics of the members themselves (age, formal education, etc.). Also, one cannot assume that one base of commitment is necessarily superior to the other. For instance, while it may be tempting to argue that utilitarian commitment leads to short-termism and selfish behaviour, it may also be a weapon to keep the co-operative management accountable to members' objectives, reducing agency costs – members that actively weigh the costs and benefits will demand better performance from managers. And while ideological commitment may ensure longevity of co-operatives and stability of the membership base, it may also lead to abuse of members' perceived prohibitive costs of abandoning the co-operative. We are not aware of any comprehensive model exploring the differences among the different dimensions of commitment on co-operative performance.

While we have shown that extant arguments in the literature generally favour cultivating member commitment to the co-operative, how co-operatives go about earning this commitment is also worthy of study. For example, to counteract the predatory pricing practices of its competitors the co-operative used a penalty clause that eliminated any short-term advantages to members defecting from the co-operative. This practice of using penalty clauses to ensure member loyalty was used by some early co-operatives but did not evolve into a standard, even though it can be acknowledged that, because co-operatives are member-based and member-centred organizations, member turnover imposes an externality on other members, which could reasonably be recouped from departing members. But failure for the penalty clauses to develop into standard practice also suggests that co-operatives, on balance, did not see any value in the penalties that they actually imposed. This could be because these penalties also discourage members from joining, since they need to weigh the penalties vis-à-vis the risk that they may not benefit from cooperative membership, and would be locked-in to membership. Penalty clauses also suggest that the co-operative is not sure about delivering the benefits reliably and consistently, and therefore utilises penalties to retain members, instead of earning their commitment via providing valued benefits. Therefore, currently, for most co-operatives patronage is voluntary with no direct penalty for disloyalty. However, to the extent loyalty denotes *voluntary* association and identification with respect to the object of loyalty, and therefore an emotion that is earned, keeping members by penalizing them for exit should not be called loyalty. Therefore, we disagree with extant argument by Staatz (1989) - farmers will be more loyal towards their co-operative the greater the penalty (monetary or psychic) for being disloyal. We believe that farmers will experience a lock-in effect, rather than a loyalty effect, in the presence of unreasonable penalties for exit.

Broadly, our paper reemphasises that member commitment to the co-operative organization is critical to cooperative functioning, as well as to achieve the objectives of the co-operative – which are centred ultimately toward delivering benefits to members. In this paper, we mapped the extant arguments on the antecedents to members' utilitarian commitment to the co-operative. Utilitarian commitment of the members is important because it keeps the co-operative managers accountable and forces them to provide and articulate the benefits that are valued by members. We believe this effort would lead to future research on member commitment in co-operative organizations, as well as offer practical guidelines to co-operative managers on developing commitment in their organizations, and ensuring co-operatives' survival and growth.

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