

Cooperatives, Competition, and Compensation: Evidence from India*

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Abstract

Producer cooperatives often allocate ownership and control rights to suppliers of material inputs or labor on a “one member, one vote” basis. This paper considers the implications of these organizational forms for firms’ allocations of resources and responses to shocks. Specifically, I study the heterogeneous effects of de-reservation, an industrial policy reform, on two major types of cooperative enterprises and their traditional competitors in India. The reform lifted caps on the size of firms allowed to produce certain items, increasing competition for incumbents in these markets. Using a generalized difference-in-differences framework, I find that supplier cooperatives (SCs), commonly owned by farmers who supply primary inputs, are resilient to the shock in terms of output. They also reallocate their spending such that their share of income going to materials increases significantly more than that for non-cooperatives in the same industries. In contrast, labor cooperatives (LCs), generally controlled by worker-members who are employees of the firm, face a sharp contraction in output due to de-reservation. Although the labor share of income for LCs increases, the adjustment of labor inputs is mixed from an equity perspective. Compared to non-managerial workers, supervisors at LCs face larger cuts to compensation as a result of the reform, but their employment is more stable. Moreover, the evidence on product mix suggests that LCs are less agile than traditional firms in the same industries. The latter group attempts to shift to products not affected by de-reservation, which may explain their better performance relative to LCs in light of the pro-competitive shock. Taken together, these results provide significant insights on how the propagation of shocks differs based on distributions of ownership and control within firms.

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