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## Understanding Institutional Life-Cycle and Sustainability of Co-operative Model: A Case Study of CAMPCO, India

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### Cover Page Footnote

Amalendu Jyotishi is Professor at School of Development, Azim Premji University and Deepika M G is Associate Professor in the School of Business, Amrita Vishwa Vidayapeetham, Bangalore Campus. The authors can be reached at [amalendu.jyotishi@apu.edu.in](mailto:amalendu.jyotishi@apu.edu.in) and [mgdeepika@gmail.com](mailto:mgdeepika@gmail.com) respectively. The study is an outcome of project submitted by the authors under the Sir Ratan Tata Trust (SRTT) visiting fellowship from Institute for Social and Economic Change (ISEC), Bangalore. The authors acknowledge the funding support from ISEC for carrying out this study.



## Understanding Institutional Life-Cycle and Sustainability of Co-operative Model: A Case Study of CAMPCO, India

Amalendu Jyotishi and Deepika M G <sup>1</sup>

### Abstract

*Co-operative movement in India has a long-standing contribution in the growth of business, agriculture and allied activities. One such cooperative movement in India is the Central Arecanut and Cocoa Marketing and Processing Co-operative Limited (CAMPCO) which was initiated with a joint cooperation between the states of Karnataka and Kerala to create an organized market structure for the two plantation crops namely Arecanut and Cocoa in the backdrop of falling market price of these crops. CAMPCO is an interesting co-operative movement, worth investigating in terms of its evolution, challenges, growth and diversification. The paper tries to examine the factors responsible for justifying the existence of the Co-operative structure and its sustainability in the context of CAMPCO, using a modified cooperative life-cycle framework.*

### Abstrak

Gerakan koperasi di India telah lama memberikan kontribusi dalam pertumbuhan bisnis, pertanian, dan kegiatan terkait lainnya. Salah satu contoh gerakan koperasi tersebut adalah Central Areca nut and Cocoa Marketing and Processing Co-operative Limited (CAMPCO). Gerakan ini dibentuk melalui kerjasama negara bagian Karnataka dan Kerala dengan tujuan menciptakan struktur pasar yang terorganisir bagi hasil panen kacang Areca dan coklat, ketika pasar kedua produk tersebut sedang jatuh. CAMPCO adalah contoh gerakan koperasi yang menarik untuk dipelajari secara mendalam terkait evolusi, tantangan, pertumbuhan dan diversifikasinya. Artikel ini berusaha untuk menjelaskan faktor-faktor yang berpengaruh dalam mendorong munculnya struktur dan keberlanjutan CAMPCO dengan menggunakan kerangka siklus hidup koperasi yang dimodifikasi.

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## I. INTRODUCTION

Co-operative are important institutions playing pivotal role in shaping the economic, social and political lives of people across the world. In India, cooperative movements have a long history and influence across various sectors including, agriculture, dairy, livestock, artisanal products, credit and labour. Genesis of cooperatives as an institutional form has been much discussed in the cooperative literature. In recent time cooperative as a model of governance and institutional framework has become more relevant owing to numerous failures of state and market-two important institutions in governing the economy. Issues, relating rising income inequality, rising prices of commodities, uneven distribution of benefits to the factors of production. Cooperative models, in several instances have the capacity to resist the ill-effects of capitalist (or, neo-liberal orders) and at the same time operate within the larger framework of the same order (Merry, 1988). It is in this socio-legal-economic and political context cooperative as an alternative or complimentary institutional framework gains importance. While literature has gone into some depth on the formation and existence of cooperative as an institutional framework, the literature becomes scanty on understanding the dynamism, challenges, life-cycle and sustainability of this framework. More often, cooperative formation is an institutional response to a particular challenge faced by an immediate society. However, literature becomes scanty that attempts to understand the response of cooperative institutions when multitude of alternatives evolve or compete with it. The key questions those emerge in the face of alternatives and competition include - What is the response of co-operative institutions?; Do they struggle and perish or innovate survive and expand?; What are the strategies of the cooperatives post their formation and addressing the issues that led to the formation of the cooperative in the first place?; Do the cooperatives move away from the primary objectives in subsequent phases? Some of these questions, not only require in-depth understanding but also contextualization to reflect on the constructs and questions thus raised. Institutional life-cycle of cooperative models provides a framework to critically analyze the cooperatives from a spatiotemporal perspective. In the process foster understanding of sustainability of cooperative models.

In this paper, we attempt to do so by analyzing Central Arecanut and Cocoa Marketing and Processing Co-operative Limited (CAMPCO) in southern India. This cooperative movement was initiated with a joint cooperation between the states of Karnataka and Kerala in India to create an organized market structure for the two



plantation crops namely Arecanut and Cocoa in the backdrop of falling market price of these crops. CAMPCO is an interesting co-operative movement, worth investigating in terms of its evolution, challenges, growth and diversification. The lessons learnt from CAMPCO can be useful in understanding factors influencing evolution, growth and sustainability of cooperative models in India, especially with reference to cooperatives engaged in processing and marketing of agriculture products. In other words, the central objective of this paper is to analyze the life-cycle of cooperative models through the case study of CAMPCO. In the process, identify factors constraining and facilitating sustainability of the cooperative institutions.

Reminder of the paper is organized in the following way. We review the literature explaining evolution and sustainability of cooperative institutions in the next section. Section 3 explains the cooperative life-cycle framework. In section 4 we discuss the methodology adopted in the study. Section 5 explains the context of production and trade of Arecanut and Cocoa in India, crisis in the sectors and the preconditions for the cooperative movement. In section six we analyze the life-cycle of CAMPCO. Section seven discusses the sustainability of cooperative models based on the analysis of CAMPCO. We conclude the paper in section eight.

## **II. THE EVOLUTION AND SUSTAINABILITY OF CO-OPERATIVE INSTITUTIONS: A REVIEW**

There are varieties of factors that lead to evolution of a co-operative type of organizations. Kinsey et al (1996) identify that compelling demand from consumers is one of the important reasons why cooperatives come forward to fill in the void. Inefficient or imperfect market often leads to formation of co-operatives (Cook, 1995; Cook and Iliopoulos, 1999). Typically, agricultural products suffer from this type of problem where monopoly in the buyers' market and monopsony<sup>2</sup> in the seller's market exploits both the sellers and the consumers (Hansman, 1999; Shivramkrishna and Jyotishi, 2008). This phenomenon is persistent in agricultural markets unlike in manufacturing and services where technology, innovation, scale, tradability, non-perishable nature of the product and new entrant can eventually transform the market into a competitive market. However, there is always possibility of asymmetry of information between buyers and sellers (Hansman, 1999) especially, in the context of

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<sup>2</sup> Monopsony market is one where there are large number of sellers but a single buyer. Agricultural produce market often exhibit this tendency.



agricultural produce market in developing economies. Price volatility is another factor that characterizes agricultural produce market. In the period of bumper crop excess supply hurts the sellers' price whereas in the lean phase sellers do not get the benefit of higher prices. Presence of intermediaries, informal credit market adds to the woes of sellers of agricultural produce who become the victim of price volatility. In this context, Wave theory in terms of price volatility suggested by Helmberger (1966) and Mop-up theory in the case of crashing of market suggested by Staatz (1987) explain the need and evolution of a cooperative structure to cushion against this kind of volatility. Apart from these factors, in an increasingly globalized world trade and global production related factors also influence the price volatility.

Cook and Chaddad (2004) pose a defense v/s offense argument for the evolution and sustainability of co-operatives. From an individual producer point of view the traditional role of a co-operative has been to improve farmer returns. The approach followed to do this include lowering production and transaction costs in the market channel, counterbalancing the negative economic impacts of market power and reducing producer income risks. This co-operative formation reasoning can be termed as defensive. Alternatively, producers might organize with the primary objective of value addition to their assets. This can be considered as an offensive reason for the formation of cooperative. Margaret Digby (1948) a champion of co-operative enterprise enumerates five indispensable factors for the success of a co-operative in the context of examining the success of fisheries co-operative world over. These include, a spontaneous response to exploitation, evolution from traditional community organization, voluntary efforts by private agencies interested in the welfare of fisher-folks, action by other kinds of co-operatives, government policies aimed at protecting and developing fisheries using the artisanal sector as the starting point. According to Kurien (1980) if a co-operative fails as a people's organization it will most certainly fail as a business organization. There is no exception to this rule.

Co-operative movement in India is known for its large diversity. The first formalization of co-operative as a legal institution in India through the enactment of the Cooperative Societies Bill in the year 1904. The act was further refined in the year 1912. Both these acts were brought in during the colonial period. Post-independent India several committees and legislations relating to cooperatives brought in to facilitate expansion of cooperatives societies in India. A detailed discussion on the evolution of cooperative laws in India is discussed by Sapovadia and Patel (2012). At the same time,



there is enough evidence to suggest that co-operative activity can succeed only when it succeeds in business terms. The two most outstanding instance of this phenomenon in India are the sugar cooperatives in Maharashtra and the co-operative dairying in Gujarat. As the S R Sen enquiry commission in 1964 points out, the setting up of sugar co-operatives in Maharashtra has acted as a nucleus for social and economic development of the area around it and has held to develop a new class of social entrepreneurs (Tyagi, 1995). An equally impressive snowball effect can be seen through the successful working of the Kaira District Co-operative Milk Producers Union Ltd. From a small co-operative supplying animal husbandry products the co-operative grew into a manufacturing unit producing a variety of milk products. The union has provided a legion of services which have stimulated and made possible many phases of economic, social, and educated development of village life.

The existing theories on co-operatives fall sort of addressing important challenges faced by agricultural co-operatives in recent times. The challenges include the need for co-operatives to compete with large firms and conglomerate, investor-owned firms (IOFs), the necessity of raising equity capital to have economies of size & scale, the dilemmas serving a highly heterogeneous group of members whose interests sometimes are conflicting, and difficulties of dealing in increasingly risky markets. Theoretical research also reaffirms that there are often valid justifications for public policies to support co-operatives particularly because of their effects on competition in highly concentrated markets and their potential to improve market co-ordination and most importantly safeguarding the interest of the producers.

While there are many problems and challenges which the co-operatives face, the root causes appear to converge upon the common problems of governance which in turn, to a major extent, determined by the laws that govern the co-operatives. The report on the High Powered Committee on co-operatives set up by the Government of India (2009) headed by Chaudhary Brahm Prakash concluded that co-operatives have not been given due importance despite the emphasis laid by the Planning Commission as a third important sector of the economy. The report concludes, though India could claim to have the largest in the world and most diverse co-operative movement, our co-operative in general are fraught with several problems and challenges. Apart from inherent weaknesses in sustaining a diverse collective they are constrained by the overwhelming role of the government through the prescriptive and restrictive legislation. They also have been unable to retain an autonomous and democratic



character. The report of GoI (2009) lists the challenges faced by the co-operatives in India including- a) inability to ensure active membership, speedy exit of non-user members, lack of member communication and awareness building measures, b) serious inadequacies in governance including that related to Board's role and responsibilities, c) a general lack of recognition of co-operatives as economic institutions both amongst the policy makers and public at large; d) inequality to attract and retain competent professionals, e) lack of efforts for capital formation particularly that concerning enhancing member equity and thus member stake, f) lack of cost competitiveness arising out of issues such as overstaffing, a general top down approach in a layered structure, and, g) politicization and excessive role of the government chiefly arising out of the loopholes and restrictive provisions in co-operative acts.

In crux, inefficient or imperfect market, price volatility due to varieties of factors as explained above and trade related factors are the most critical ones impacting agricultural produce market. In such situation, formation of cooperative becomes an enabling factor to guard against these inefficiencies and volatilities.

Though the above-mentioned factors are usual pre-condition for formation of co-operatives, these still remain a few of the possible motivations of forming a cooperative. In some cases, state institutions also intervene and provide alternatives through policy changes or a temporary relief to the concerned groups. There are again varieties of factors that may lead to formation of cooperatives. Certain aspects like leadership (Shah, 1993) government support, group homogeneity (Ostrom, 1990 and 1992.) collective role (Bromley, 1992), geographical and or product clusters, capital support etc., are important enabling factors for the formation of the cooperatives.

Varieties of reactions and responses can lead to formation of a co-operative, albeit these factors alone cannot contribute to sustainability of it. It is important that after the formation of co-operative there are visible improvement on the parameters that led to its formation. Co-operative structure contribute to the economic growth as suggested by LeVay (1983), help lowering the transactions costs, (Runge, 1985 and 1992), address the problems of moral hazard (Jyotishi et al, 2018). Stability of external factors including trade and market scenario helps fostering the growth of the cooperative especially in the formative years (Deepika, 2010). Sustainability of the institutional structure can only be evaluated in the long run where among other things; scale, diversification and institutionalisation of the processes contribute to the sustainability of





the co-operative. A strong forward and backward linkage further strengthens the organisational structure.

Co-operative structure is seen as a panacea for price stability in a situation where large numbers of small producers are involved, especially in the context of primary and artisanal produce. Primary products often face the situation of high price fluctuation and price crash due to several factors that include nature of the commodity, glut in the market, inefficient supply chain, small producers being considered as price takers, and unorganized nature of the market. In such situations, a co-operative model is considered as response to falling prices. However, if the structure of co-operative is not robust<sup>3</sup>, in a rising price situation it becomes difficult to sustain the cooperative model. Due to increasing overhead costs, growers in such situation may prefer to sell their product in open market leading to a ‘moral hazard’ type of problem (Jyotishi et al, 2018). Therefore, it is important to understand what sustains a co-operative model irrespective of price situation.

Knutson (1985), in his paper discusses some of the principles, goals and operational aspects of co-operation which may hinder co-operative from improving market performance. The paper discusses the process and consequence of the revolving fund which is the most common method of financing of the co-operatives. To the extent capital is revolved out to the members on a regular basis within a reasonable period, the patron members may consider the present value of the patronage refund as a net addition to price. To this extent, the competition from the outside players will be required to meet the price of the co-operative including the present value of patronage refunds. Consequently, monopsony profits in the market may be largely eliminated as a result of the co-operative activity leading to competition favouring the patron members with better price realization and larger output.

Another aspect what draws our attention in co-operative system is the membership restriction. The restricted membership co-operation can also lead to a socially undesirable market performance differently affecting the members and non-members. This would be true if the co-operative’s goal was to maximize the members’ products price. However, if the goal is to enhance the general welfare of the producers (especially the vulnerable group of producers) cooperatives can play an important role in provisioning of important inputs. The inputs may include access to raw materials at a

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<sup>3</sup> Robustness can be considered from the financial health of the co-operative; its command over the market in terms of price determination; and, the institutional structure.



reasonable price, access to relevant information. On the output front, cooperatives not only can play the role of price realization but also resisting the fall of price.

While the discussion on what weakens the cooperatives in the long-run is nuanced, the literature remains scanty on the factors influencing sustainability of cooperatives. Cooperatives, after their formation and a stable period of operation often face numerous challenges. The challenges can be from within and outside the cooperative structure. Managing scale (Chandler 1962 and 1977), bringing amendments to initial objectives, diversification, or adding backward and forward linkages are some of the important influencers to the cooperatives in subsequent phases. Similarly, changes in the external environment including production shift among the members, evolution of new markets etc. can also challenge the existence of the cooperative system. These include managing scale, long-term e - the co-operative is a monopolistic seller of the finished product or substantial diseconomies of scale exists. Cook in his (2018) and a few earlier co-authored papers discusses the factors and trajectory of cooperative life-cycle. We are discussing that in the next section to evolve a framework of cooperative life-cycle.

### **III. THE CO-OPERATIVE LIFE-CYCLE: A FRAMEWORK**

There are very few studies that discuss about the life-cycle of co-operatives, although there are several research studies available on organizational life-cycle (Downs, 1967; Tuason, 1973; Whetten, 1980; Kimberly and Miles, 1987; La Porta, et al., 1998)<sup>4</sup>. These studies largely pertain to corporations. In co-operative, especially relating agricultural product cases we find sparse references. One of the earlier studies is by LeVay (1983). Based on LeVay's premise, Cook (2018) developed a life-cycle framework as shown in figure 1. Cook proposed a dynamic framework to understand the co-operative degeneration hypothesis and suggest methods to avoid this. Their life-cycle framework is relatively simple - it includes five phases.; 1) economic justification, 2) organizational design, 3) growth, glory, and heterogeneity, 4) recognition and introspection, and 5) choice. He suggests that the "health of a given co-operative" varies over time. He also found that this framework is closer to the analysis of co-operatives. However, there are aspects that may not be appropriate in certain co-operative

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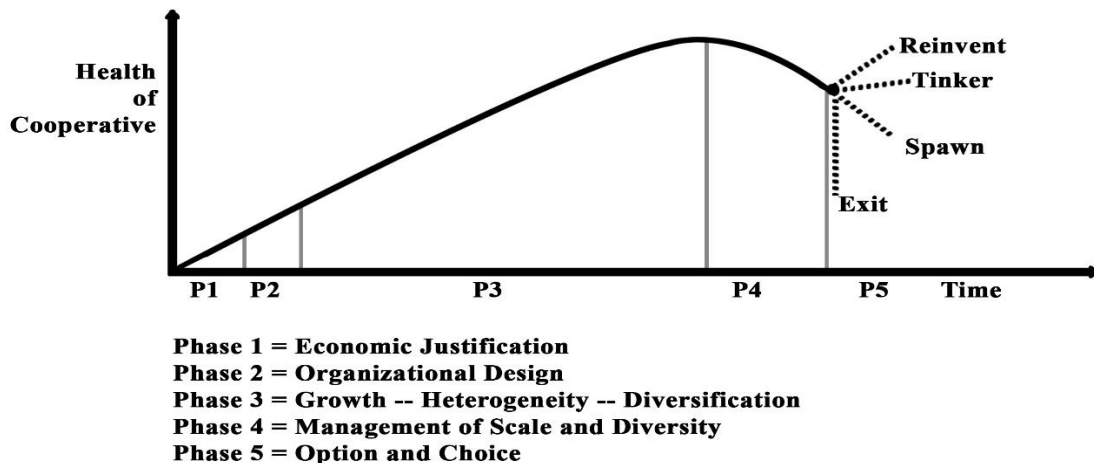
<sup>4</sup> For a detail review see Cook and Burrell, 2009



especially in India context. For example, glory may not be as much a problem as managing diversity. Similarly, it is difficult to comprehend ‘recognition and introspection’ as a one phase activity. This is done over every phase. Instead, managing scale and diversity is critical as an organization grows. Therefore, we are using a modified version of life-cycle framework for our study.

In the present study, the modified version of Cook (2018) phases are (1) economic justification (2) organizational design (emphasis based on Hueth and Reynolds, 2011) (3) growth, heterogeneity and diversification (4) management of scale and diversity and (5) options and choices. As we will see phase 3, 4 and 5 are slightly modified. For phase 3 we did not find importance of glory as much that of growth. Similarly, the term heterogeneity usually refers to the diversity in the characteristics and culture of the organization. In our case, we intend to analyze heterogeneity as well as diversification in business. In phase 4 instead of recognition and introspection, we intend to understand the approaches to manage scale and diversity that are critical in sustainability of an organization. Phase 5 we term as options and choices as choices are critical to available options.

*Figure 1: Modified Cook’s framework of Cooperative Life-Cycle*



*Source: Authors’ modification of Cook (2018) framework*

Once different aspects of organizational need, structure, growth, and perspective choices are understood, it is essential to identify how CAMPCO in our case has responded to these aspects. In such context, the factors explaining the responses (in a



way) determine the evolution, growth and sustainability of an organization. It is therefore, worthwhile studying these aspects in the context of CAMPCO which has been in existence for nearly fifty years enhancing its operation, scale in procurement and selling of Arecanut and Cocoa and later diversifying into other products.

#### **IV. DATA AND METHODOLOGY**

The study made use of both primary as well as secondary sources of information. Secondary sources of information were collected from various literature on co-operative structures especially in the context of India, various business newspapers and useful internet data sources including FAO and Ministry of Agriculture, Government of India relating to arecanut and cocoa. Primary data was collected using discussion and personal interview methods with the past and present management officials and shareholders of CAMPCO. The authors also extensively made use of the Annual reports of CAMPCO for the analysis. Intensive fieldwork and interviews were conducted during 2011 at various places including Mangalore, Sagara, Puttur region of Karnataka followed by intermittent visits to the region and interacting with some of the stakeholders of the cooperative over the last one decade. The authors also had extensive interviews with the founder President of CAMPCO Late Sri Varanashi Subaraya Bhatt during that period that provided the genesis of formation of CAMPCO, the initial challenges and some important milestones in the expansion process. Subsequently, intermittent field visits were made in and around Puttur. After 2011, the authors followed-up with the subsequent annual reports and website of CAMPCO and interacted with a few arecanut and Cocoa growers intermittently to understand the price realization of the products.

In the next section we provide an overview and trend of arecanut and Cocoa to set the context of the commodities in questions that led to the formation of CAMPCO.

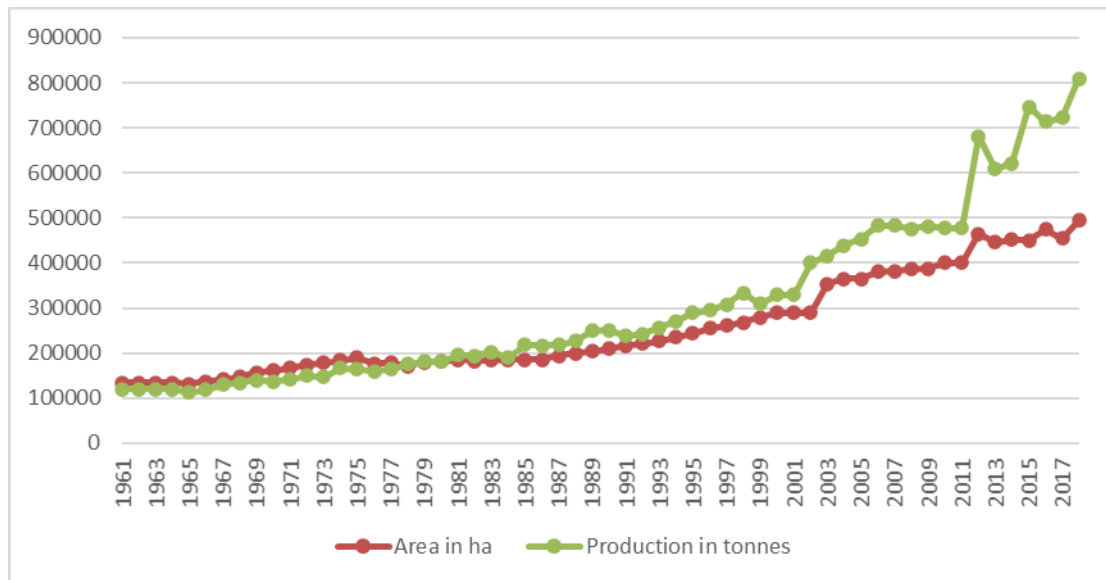
#### **V. ARECANUT AND COCOA SCENARIO IN INDIA**

Arecanut is an important plantation crop in India and Cocoa cultivation is also gaining momentum in terms of area though it is not encouraging in terms of production and yield (Figure 2). India is one of the traditional growers of arecanut and has been cultivating this since generations. India initially was not self-sufficient in the production of arecanut and was importing as and when required, Government of India placed importance to expand the area and production of arecanut in the Five Year Plans



(Vigneshwara, 2001). The total acreage and production of arecanut is showing an increasing trend over the years. However, the yield has stagnated since late 1990s. Three states, namely Karnataka, Kerala and Assam together occupy the majority of area and production of arecanut in India. It is also grown to a small extent in Meghalaya, West Bengal, Tamil Nadu and Maharashtra. Over six million people are engaged in arecanut cultivation, processing and trade. More than 85 percent of the area under cultivation is made up of small and marginal holdings (source: [www.campco.org](http://www.campco.org)). People all over India use arecanut for chewing in tender, dried or processed form. It is also used in indigenous system of medicines and religious purposes.

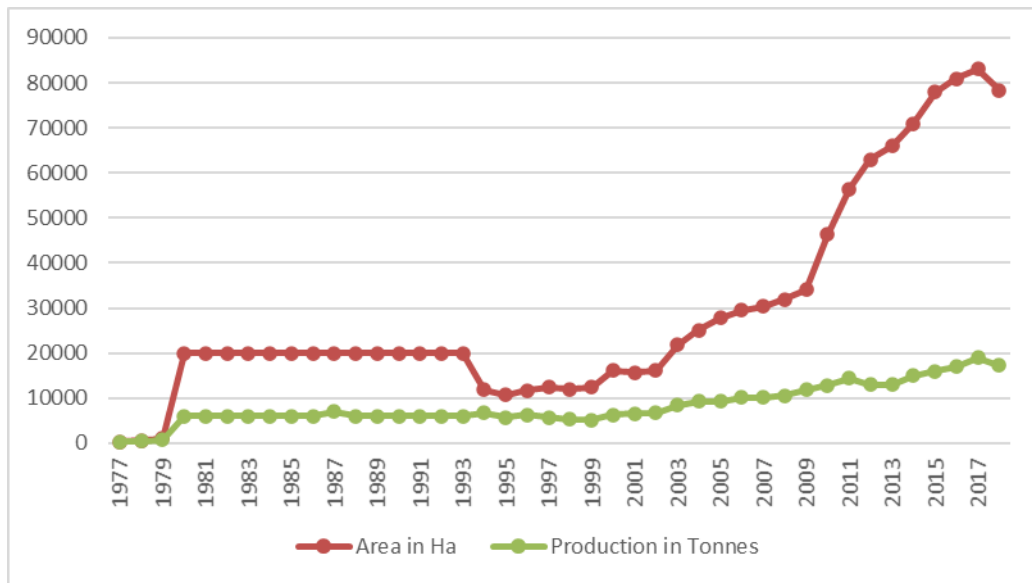
**Figure 2a: Area and Production of Arecanut in India 1961-2014**



**Source:** Food and Agriculture Organization (Accessed on 1/12/2020)



**Figure 2a: Area and Production of Cocoa in India 1961-2014**



**Source:** Food and Agriculture Organization (Accessed on 1/12/2020)

India is in a very nascent stage of production of cocoa though there has been significant increase in production since 2009. Karnataka and Kerala are again the major cocoa producing states of India. A small amount of cocoa is also produced in Andhra Pradesh and Tamil Nadu<sup>5</sup>.

### A. CRISIS IN ARECANUT AND COCOA SECTOR

Large scale expansion of arecanut had taken place in the decades of 1980s and 1990s in India as a response to attractive prices. The year 1999 experienced a drastic fall in arecanut prices (Vighneshwara, 2001). The low prices prevailed in the market has widely affected the arecanut farmers who entirely depended on this crop for their livelihood sustenance. The areca growing tracts in Karnataka experienced a draught in the year 2003. Jose et al, (2003) identified that the impact of drought was severe in Chikamagalur, Tumkur, Shimoga and Dakshina Kannada districts. The estimated average yield loss of the four districts was 14.5 percent. Interestingly an inverse relationship was observed between land holding size and drought severity. This indicated that the drought mainly affected the small farmers who do not have adequate irrigation facilities to withstand long dry spell (Vighneshwara, 2001).

<sup>5</sup> <http://dccd.gov.in/stat2.htm>



Similarly, cocoa too faced a price and market crunch in early 1970s especially among the growers from Kerala. Therefore, CAMPCO, though initially started with an objective of arecanut procurement and marketing, included cocoa procurement and marketing process in late 1970s and formalized the process in 1980-81. The organization which was registered as “The Central Arecanut Marketing & Processing Co-operative Limited” in 1973-74 became “The Central Arecanut and Cocoa Marketing & Processing Co-operative Limited” in 1980-81.

## **B. ARECANUT AND COCOA SCENARIO IN THE WORLD**

India is one of the largest areca growers in the world with its area contributing to 57 percent of world share (FAO, [www.fao.org/statistics](http://www.fao.org/statistics)) and 53 percent of production. Other major producers are Indonesia, China, Bangladesh and Myanmar. China is expanding rapidly in terms of its area and production since the late nineties and early 2000 (Vighneshwara, 2001). Increase in area and production has been rapid even in India and Thailand. There is an increased competition in terms of area and production of arecanut in India, as compared to China and Thailand, two major growers.

India is not a major producer of cocoa. Majority of cocoa is produced in African region especially in Côte d'Ivoire followed by Ghana. Latin American region stands at second and in Asia, Indonesia and Malaysia are the bigger producers. The global production is about 4 million tons of which about 80 percent is grown in Africa<sup>6</sup>. In global comparison India produces about 20 thousand tons of cocoa which is about 0.5 percent of global production.

## **C. EXPORTS**

Indian export of arecanut was between 100 and 350 tons annually until 1972-73. The exports increased to 513 tons in 1996-97. Exports have increased further in the later years, reaching to a level of 4,401 tons during 2004-05. India obviously is not a major exporter of cocoa beans. However, some amount of processed cocoa is exported from India (FAO, [www.fao.org/statistics](http://www.fao.org/statistics)).

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<sup>6</sup> <http://www.fao.org/docrep/006/y5143e/y5143e0x.htm>



#### **D. MARKETING OF ARECANUT**

The supply chain of arecanut from the producer to that of the consumer encompasses a long chain of middlemen. The co-operatives and the private players co-exist in the marketing chain. The private players occupy a larger share in marketing almost close to 90 percent of produce (Vigneshwara, 2001). The supply chain consists of village merchants, commission agents, primary co-operative societies, CAMPCO, agents distributing to the *panwalas* (the vendor of pan or beetles, a chewing delicacy popular in south Asia) or involved in exports. Since the supply chain involves many intermediaries, the producer reaps only 50 percent of the consumer price of the product. The price would however also be subject to the quality and grades of the product.

More than 15 co-operatives in the state of Karnataka have focused on the marketing of arecanut. To mention the most important ones, SKACMS (South Karnataka Agricultural Co-operative Marketing Society set up in 1919 in Mangalore, TCSS set up in Shirsi in 1913 (The Totagars Co-operative Sales Society) and MAMCOM (Malnad Agricultural Marketing Society set up in 1939). These co-operatives have strived to work for the betterment of arecanut producers but lacked the membership and the scale of activity. There was not enough awareness among the producers on the advantages the co-operatives provided and hence attaining the scale of operation was difficult.

Marketing in Maharashtra as described by Deorukhar et al (2005) is a case in point worth discussing. In Maharashtra sale of arecanut happened through two channels. The producers sold to the commission agents-cum-wholesalers or the producer sold it to the village merchants, who in turn, sold to the commission agents. The maximum quantity was sold through village merchants. On directly selling the produce to the commission agents offered an opportunity to the cultivators to retain for themselves the share of village merchant's commission. In this channel, producer took great care while grading and, thereafter, sold to commission agent-cum-wholesaler at distant markets like Mumbai. The cultivators carried out the operation like de-husking, grading and transportation to sell their produce in distant market. When they sell it to the village merchants, they purchased the husked or un-husked nut from the producers and they incur the cost of assembling and transport. The functions like grading, packaging and transportation are performed by the village merchants who finally sold whole





quantity through commission agent-cum-wholesaler at Mumbai. But in an absence of a co-operative society good numbers of constraints were expressed by the arecanut growers in Maharashtra region (Deorukhar et al, 2005).

Some of the constraints identified by the farmers were non-availability of credit from banks and formal sources, skilled labour on time, improved variety of seedlings, agro-chemicals in the villages, coupled with low quality of nuts, water scarcity during summer, disease occurrence, and monopsony market of village merchants, long time for payment recovery from the merchants on purchase of arecanut. As credit was not available from the formal sources for cultivation of arecanut, the only source of credit were the village merchants. The producer who took finance from the village merchants had to sell the produce at low prices to the merchants leading to interlocking of the market. The need for a co-operative in this region was largely felt by the growers (Deorukhar et al, 2005).

Arecanut being a non-food crop grown solely for commercial purpose, price volatility as well as adverse market situation for the growers called for an institution that could correct the prevailing situation. Similar was the situation with cocoa. Though the number of growers and amount of production were relatively small, the producers were clustered in the specific regions of Kerala and Karnataka that overlap with the arecanut growers. Both the crops being non-essential commodities, State's concerns were relatively less compared to other important food commodities. The volatile price and adverse market for both these products created a precondition for an alternative institution that could safeguard the interest of these producers. This set the premise for creation of CAMPCO. In the next section, we describe the evolution and growth of CAMPCO as an institution. While doing so, we use the modified framework of cooperative life-cycle as suggested by Cook (2018).

## **VI. CAMPCO: A LIFE-CYCLE ANALYSIS**

Our analysis of CAMPCO is based on the modified life cycle model suggested earlier (see figure 1). As discussed in the model we present the (i) economic justification in the evolution of CAMPCO, (ii) Organizational design, (iii) Production and marketing strategy (iv) growth and diversification. The fifth phase of the life cycle i.e. option and choice are discussed in the subsequent section in the process of critically analyzing sustainability of CAMPCO cooperative model.



## A. EVOLUTION

A sudden marketing crisis in the year 1970-71, when prices registered a marked fall causing considerable concern to the growers, was the genesis for the setting up of this co-operative structure. State Government of Karnataka, on the advice of an Expert Committee, recommended organizing a Central Agency in the public or co-operative sector. With the support extended by the State Governments of Karnataka and Kerala, the Central Arecanut Marketing & Processing Co-operative (CAMPCO) Limited was created. Cocoa was added to it in the year 1980-81 and since it carried the name Central Arecanut and Cocoa Marketing & Processing Co-operative (CAMPCO) Limited. It was registered on 11th July 1973 under sec.7 of the Karnataka Co-operative Societies Act read with section 4 (2) of the Multi State Co-operative Societies Act 1984.

According to CAMPCO website, there were about 600 thousand families including agricultural labourers who depended on arecanut for their livelihood at the time of formation of CAMPCO. Karnataka and Kerala together shared about 76 percent of total Indian arecanut production which was about 165 thousand tones then. The price of arecanut crashed during 1971-72 and further fell in 1972-73. At the same time, the cost of living and input cost kept increasing making it a difficult period for people dependent on arecanut for their livelihood. This was the critical point of time and reason for CAMPCO to come into existence. The CAMPCO was registered on 11<sup>th</sup> July 1973 with an authorized share capital of rupees 10 Million. State of Kerala and Karnataka contributed Rs 3.75 million each and the Karnataka State Cooperative Marketing Federation contributed Rs 100 thousand towards the share capital of the CAMPCO (Annual report, CAMPCO, 1973-74).

The main functional areas of CAMPCO during its formation period are:

- Procuring arecanut and cocoa grown by member cultivators and if necessary, from other growers on an agency basis or on outright purchase basis,
- Sale of arecanut and cocoa and their products to the best advantage of members and also to advance loans to members on the pledge of goods and to do all other things necessary to carry out the objective,



- To promote and develop arecanut and cocoa cultivation, marketing and processing.

The area of operation of this co-operative for procurement and processing of arecanut and cocoa is mainly in the States of Karnataka and Kerala. However, for the marketing activity, the area is spread over the country.

The co-operative encouraged growers to take-up cocoa cultivation as an inter-crop in the latter half of the 1970's as a supplemental crop. This grew up to become a large-scale operation in the later period. A sudden withdrawal by the buyers of cocoa from the procurement operations due to crash in the international market came as a shock to cultivators<sup>7</sup>. CAMPCO at that point took up the responsibility to enter the cocoa market as a procurer. It procured cocoa pods from growers and adopting scientific processing methods to market standards, released dry cocoa beans matching in quality in the world market to that of Ghana, Brazil and other leading cocoa cultivating countries.

With a view to creating a permanent demand and a steady market for the beans, CAMPCO established a Chocolate Manufacturing Factory at Kemminje village in Puttur Taluk in Dakshina Kannada District. The factory was set up in 1986 at an initial investment of Rs.116.7 million and a licensing capacity to produce 8800 metric tons. Later, the factory also entered into technical co-operation venture with Nestle (India) Ltd, for diversifying product brands. Later, CAMPCO established a Copper-Sulphate factory in Sagar to provide the fertilizer to the members at a reasonable price. A small packaging factory too was established at Mangalore. Apart from these three main factories CAMPCO's major activity was confined largely to procurement and marketing of arecanut and cocoa.

The setting up of CAMPCO in 1973 for only arecanut and adding cocoa in 1980 brought in a notable change in the marketing of the products. CAMPCO came into existence during a crisis as the price of arecanut crashed from Rs.600 per quintal in 1970 to Rs. 300 in 1973. A group of people with the leadership of Sri Varnashi Subraya Bhat took the initiative in setting up of a co-operative solely for the marketing of arecanut in the Malnad and coastal region of Karnataka and Kerala. The co-operative was set up with the support of Karnataka and Kerala

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<sup>7</sup> Based on discussion with the founder President of CAMPCO, Sri Varanashi Subaraya Bhatt



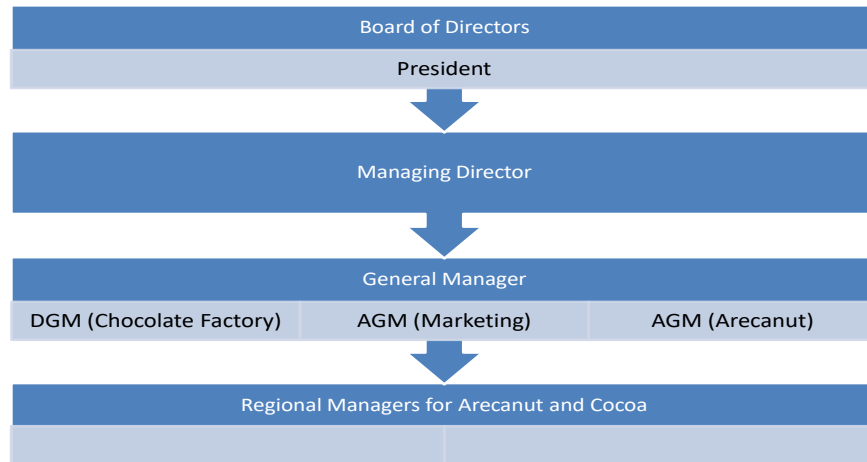
government, each granting 3.75 million rupees in the form of share capital. Remaining Rs. 3.6 million was raised through equities from the producer members and trusts. The primary objectives of CAMPCO were to aid in attaining a fair price for arecanut to its growers and cater to the requirements of the producers. To do so, the co-operative set up 8 procurement centers in the region. In addition, it tried to establish network with the major trading centers of Mumbai, Nagpur, Lucknow, and Delhi to increase the supply chain efficiency. It also tried exploring the export markets albeit with limited success. The organization which started with the share capital of 10 million rupees had grown to 517 million rupees in the year 2019-20. In terms of membership that started with 3576 has grown to 117,088 by the year 2020. CAMPCO makes an interesting case in a co-operative model that has been in existence for a fairly large period of time, addressing the issues of price and enhancing its scale of operation. It would, therefore, be interesting to investigate the institutional aspects of this organization to understand cooperative life-cycle.



## B. ORGANIZATIONAL DESIGN

Present organization structure of CAMPCO is as follows.

**Figure 3: Organizational Structure of CAMPCO**



Source: Personal interview with MD, CAMPCO

CAMPCO is led by an elected body of Board of Directors. The Board of Directors are elected in a General body meeting, once in 5 years. Of the 17 elected directors, one of them is elected as president. Apart from Board of Directors and President, the organisational structure includes Managing Director, General Manager, DGM & AGMs and regional managers for arecanut and cocoa.

**Table 1: Growth of CAMPCO as an Organisation**

<i>Years</i>	<i>1973-74</i>	<i>1983-84</i>	<i>1993-94</i>	<i>2003-04</i>	<i>2013-14</i>	<i>2019-20</i>
<i>Important Milestones preceding the period</i>	Establishment of CAMPCO	Cocoa was added	Chocolate Factory was established	--	Diversification to Windmill and Solar Energy projects	Pepper and Rubbers procurement added
<i>Authorized Share Capital (Rs in '00 thousands)</i>	100	1200	2500	2500	5500	7500



<b><i>Paid Up Share Capital (Rs in '00 thousands)</i></b>	94.4	501.57	1196.58	1437.2	3578.97	5173.15
<b><i>No. of Members</i></b>	3520	20960	57278	83196	129050	117088
<b><i>No. of Procuring Centre</i></b>						
<b><i>a. Areca</i></b>	NA	36	42	44	52	50
<b><i>b. Cocoa</i></b>			8	12	7	5
<b><i>No. of Sales Depot</i></b>						
<b><i>a. Areca</i></b>	NA	13	20	12	13	14
<b><i>b. Chocolate</i></b>			25	21	19	13
<b><i>Net Profit/Loss (Rs in Million)</i></b>	0.1	11.96	-5.8	40.11	399.37	321.02

*Source: Compiled by the authors from annual reports of CAMPCO over several years*

### **C. PRODUCTION AND MARKETING STRATEGY**

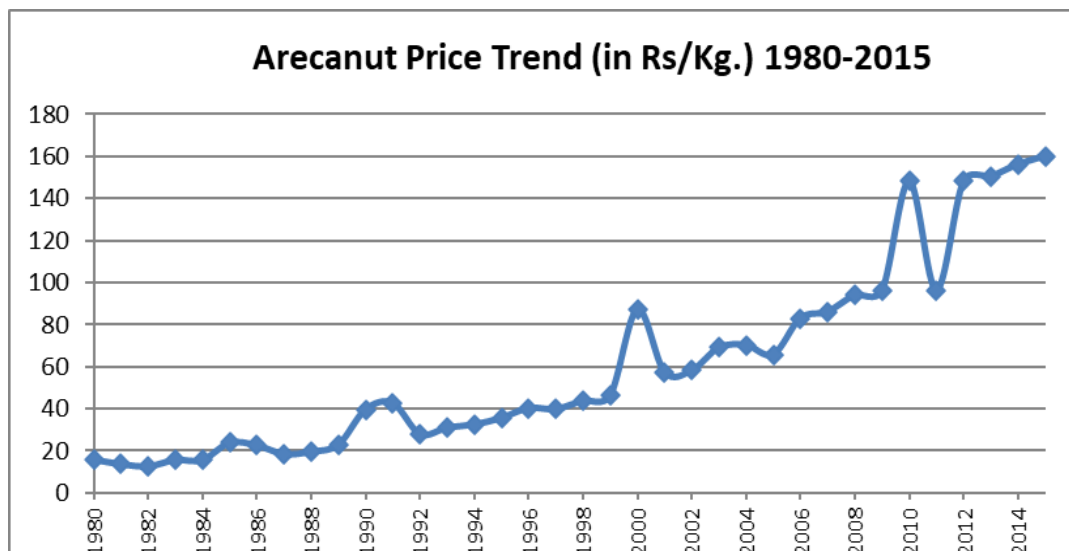
A third dimension of life-cycle is the production and marketing strategy. However, given the objective and mandate of CAMPCO, its role has been prominent in marketing dimensions. On production front CAMPCO is that of a facilitator. Since its inception, CAMPCO has not played any direct role in price fixation or increasing the market share. According to A S Bhat, former Managing Director, CAMPCO's market share over a period would be between 10 to 15 percent of the total arecanut production in India and roughly 20-25 percent of production in Karnataka and Kerala<sup>8</sup>. CAMPCO does not involve itself in fixing the market price. However, it does not deny procurement from the growers. Therefore, when the market price goes up, a large number of growers turn to the traders to sell their product and hence, the procurement of CAMPCO declines relatively. On the other hand, when the market prices are sluggish or show declining trend, CAMPCO prices being relatively high more growers turn towards CAMPCO to sell their product. CAMPCO's resistance to the decline in price creates a resisting supporting mechanism from the free fall of price. In other words, CAMPCO's role in arecanut market has been that of 'bear' in a stock market of an open economy (Chen, 2009). From this perspective, CAMPCO's

<sup>8</sup> As discussed with A S Bhatt, former Managing Director CAMPCO.



role is different from usual co-operatives in agricultural produce markets in India where cooperatives play a role in price fixation. Arecanut being a non-essential crop, direct government interventions are limited. Role of CAMPCO as cooperatives pressure group therefore is limited too. CAMPCO has been successful in using the limited role to leverage on its autonomous function to enhance trading and enterprise-oriented activities. CAMPCO, however, did play the role of a pressure group to influence government to increase import tariffs and bringing in easiness of export.

**Figure 4: Price Trend and History of Arecanut**

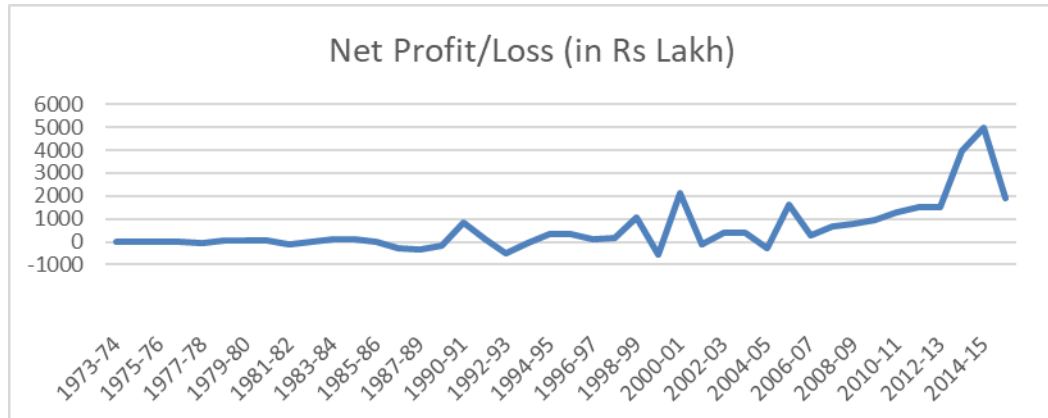


**Source:** *fao.org and Indiatat.com*

A case in point is year 1999 and 2002. In the year 1999 the market price of arecanut declined sharply. This is reflected on the balance sheet of CAMPCO with loss of more than 215 million rupees in the year 199-2000. However, CAMPCO could still sustain its financial stability is suggestive of its importance in a downward spiral of prices. The financial stability is also dependent on the support of the consortiums of Banks led by Syndicate bank that provides the required loan essential for procurement of arecanut and cocoa in the seasons. Since, 2004-05 CAMPCO has experienced a secular rise in its profit, registering Rs 320 million in the year 2019-20. Apart from arecanut trade, the diversification into other activities, especially chocolate have important contribution to the profit growth of CAMPCO. These diversifications aspects are being discussed in the next section.



**Figure 5: Net Profit (loss) of CAMPCO during the period 1973-74 to 2015-16**



**Source:** Compiled by authors from annual reports of CAMPCO over several years

#### **D. GROWTH AND DIVERSIFICATION**

As a cooperative, CAMPCO had some distinctive strategies that could be instrumental for its growth and sustainability. Arecanut being a non-food crop it was difficult to get state support in protecting farmers' interest. Therefore, this case may not be comparable to the growth story of other agricultural produce cooperatives. However, despite not having a minimum support or procurement price, CAMPCO's approach in the competitive and fragmented informal market has been distinctive. CAMPCO's growth is also associated with its diversification strategies. In the year 1973-74 CAMPCO was only an arecanut procuring and marketing cooperative. The slump in cocoa international market along with a large number of growers from Kerala formed a critical mass and pressure group made CAMPCO to procure cocoa along with arecanut. Though CAMPCO was procuring cocoa in small quantities and selling it to Nestle, it formally made cocoa as an integral part of CAMPCO in 1980-81 by amending its name and adding cocoa to its fold.

However, adding a chocolate factory was an enormous risk that paid dividends in later years. In 1986-87, when Europe had a slump, CAMPCO decided to buy a used plant from Italy at a cheaper rate and put it in the cocoa growing region of India. This, along with a guaranteed purchase of processed cocoa butter by Nestle at a competitive price could stabilize the cocoa price of





growers for a long time<sup>9</sup>. The underutilized factory started doing job work of processing cocoa of other organizations to add to its revenue. Now the chocolate factory of CAMPCO is self-sustained where they not only process and sell the procured cocoa from the growers of the region but also process the same for other organizations including Nestle, Cadbury, Glaxo SmithKline (Horlicks and Boost), Britania, Perpety and Lotte. CAMPCO also introduced its brand of chocolate which is continuing in the market. However, the marketing strategy, cost of branding and competition with large global players did not help sustaining the chocolate brand of CAMPCO and it largely fizzled out from the consumer market confining itself to limited areas in Karnataka and Kerala. In 1987 when the chocolate factory was operational, the utilization of it was very low due to low production and procurement of cocoa. CAMPCO even could not mobilize enough job work to sustain an optimal production level. Therefore, in 1990 it leased out the factory to Nestle for production. However, since 2000 CAMPCO has started the production activities on its own and processes about 12,000 metric tons of cocoa every year. Of this, a partial capacity is utilized from its own procurement. Remaining processing happens for other organizations like Cadbury who import and supply the beans for processing. CAMPCO's own processed cocoa is sold to small and large chocolate and confectionary manufacturers in the country. For example, CAMPCO entered into an agreement with Gujarat based AMUL to supply processed industrial cocoa products to the tune of 1,200 tons in the year 2006<sup>10</sup>.

While simultaneously trying to streamline the coco procurement, processing and marketing, CAMPCO also attempted to stabilize the production process of arecanut. In this process CAMPCO's role apart from procurement and marketing was also to provide the growers with input support to enhance productivity. Diseases to arecanut plants often reduce productivity. Phytophthora, locally known as *koleroga or Mahali* is a common disease that attacks arecanut leading to reduction in production. Copper Sulphate is usually used in the plants to protect those from these diseases. A huge demand for Copper Sulphate and increase in its price made CAMPCO to supply it to the farmers at a reasonable price. As part of

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<sup>9</sup> This information is based on an extended discussion with the founder president of CAMPCO Sri Varanashi Subarya Bhatt who narrated the evolution and growth of CAMPCO.

<sup>10</sup> For details see <http://www.thehindubusinessline.in/2006/05/17/stories/2006051702240800.htm> visited on 20th July 2012



backward integration, CAMPCO established a Copper Sulphate Factory in Sagar, Karnataka in 1987. The factory added to steady supply of this insecticide to meet the increasing demand and put a check on the increasing price. However, 2006-07 it shut-down the factory. The reason for shutting down the factory was due to losses for several years. Excise duty of 16.32 per cent and VAT of 12.35 per cent on big manufacturers like CAMPCO created unfavorable balance against big producers supporting small producers. Therefore, CAMPCO decided to shut down the loss-making factory<sup>11</sup>. It was possible for private players to open several smaller entities to produce Copper Sulphate to avoid the excise duty and VAT. However, continuous increase in Copper scrap price and absence of local manufacturer is the reason behind increase in the price of Copper Sulphate. This also has led to supply of inferior quality of Copper Sulphate to the farmers over the years<sup>12</sup> in the absence of CAMPCO as a player.

In recent years CAMPCO has diversified itself into rubber and pepper procurement and marketing. In addition, it has divested into generation on renewable energy through wind mills. Rubber procurement is a recent phenomenon that has started only in the year 2010-11 from a few procurement centers. Similarly, pepper procurement was initiated in the year 2016-17<sup>13</sup>.

CAMPCO has covered a substantial distance since its inception. Adding new products and diversifications and extension of procurement and marketing activities, CAMPCO has established itself as a measure player not only in arecanut but also in cocoa. While rubber and pepper are added as other commodities, CAMPCO has also diversified into Cupper Sulphate, Chocolate and renewable energy (solar and wind) production. Has the strategy been successful to make CAMPCO a sustainable cooperative model? We discuss this in the next section.

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<sup>11</sup> <http://www.thehindubusinessline.in/2006/06/05/stories/2006060500030700.htm> visited on 23rd July 2012

<sup>12</sup> <http://www.business-standard.com/india/news/k%60taka-to-revive-campco-copper-sulphate-plant/297149/> visited on 23rd July 2012

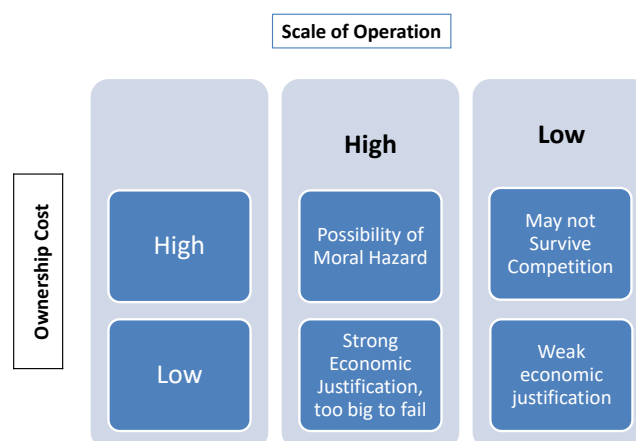
<sup>13</sup> <https://www.thehindubusinessline.com/economy/agri-business/campco-to-start-pepper-purchases-from-january/article9404978.ece> visited on 9<sup>th</sup> December 2020



## VII. IS CAMPCO CO-OPERATIVE A SUSTAINABLE MODEL? A DISCUSSION

Co-operative models that evolve as a reactionary strategy to pricing as a form of cartel often fizzle out when the price factors are unfavorable or the overhead cost of scaled up co-operative expenditure do not yield much gain to the producers. Typically, in such situation the co-operative faces the problem of moral hazard<sup>14</sup> from the member producers. However, CAMPCO had a market linked procurement strategy where instead of having a strategy to determine or fix the market price, its procurement activities were related to market price. Therefore, invariably in a rising price situation CAMPCO had less procurement as growers would prefer to sell their product to the private players that gave them higher price for the product. In a falling price situation, however, the procurement of CAMPCO increases as the offer from outside market is less attractive. CAMPCO therefore, could sustain its model as it did not antagonize the market through a monopolist behavior. An example of such price fixing co-operative which led to total failure immediately after its formation is Coffee Marketing Cooperative Limited (COMARK) that was formed in the 1990s in India (Deepika and Jyotishi, 2013). This is one of the critical departures that helped a sustained growth of CAMPCO. As shown in the schematic below, high scale of operation at low ownership (or overhead) cost provides better economic justification of presence of an organization and drives it towards a more sustainable institution in a competitive environment.

*Figure 6: A schematic model describing Sustainability of Co-operatives*



*Source: Authors' own description*

<sup>14</sup> Moral Hazard is a situation where one of the parties (principal) changes her/his behavior after getting into the contract with the agent. This problem arises due to asymmetry of information between the principal and the agent.



Though arecanut is not an essential crop, CAMPCO played a critical role in the market to sustain its price. Pricing may not be the only strategy attracting the growers to sell arecanut to CAMPCO. Immediate payment, reliable grading of arecanut and pricing based on grades, reliability and accuracy of weighing, annual payment of dividends to the members are other benefits that helped CAMCO attracting small and medium growers to its fold. At the same time, its entry into cocoa market was a good diversification strategy. CAMPCO took the risk of establishing then Asia's largest chocolate factory when the production of cocoa was very low in India and there was uncertainty around sufficient capacity utilization of the plant. However, the increasing market for chocolate and cocoa product was a good enough clue for CAMPCO to take the risk. This paid dividend in later years in stabilizing CAMPCO's revenue growth. Even today India does not produce enough cocoa. However, increase in competition and expanding market for cocoa butter and chocolate products provides enough opportunities for CAMPCO chocolate factory to process cocoa. Cocoa also proved as a reasonably good alternative (or complimentary) crop for the farmers to minimize their risk. Already existing procurement centers of CAMPCO for arecanut procurement works for cocoa procurement without any additional cost. However, cocoa as a crop has gained popularity mostly in Kerala and *Dakshina Kannada* district of Karnataka as against the *Malnad* region of Karnataka. The reason behind its less popularity in the region is the high wind velocity and menace of monkeys<sup>15</sup> that the soft wood of cocoa cannot withstand. With an established and growing cocoa market, CAMPCO now can advise farmers not to expand the arecanut cultivation. It is able to do this without risking the co-operative institution it has established. CAMPCO has also moved into promoting rubber and pepper procurement in recent years. It has taken initiatives to procure rubber and pepper using its existing procurement establishment. Since 2010-11 CAMPCO procures rubber from Bandadka, Uppinangady, Padpinangady, Mulleria, Alankar, Kadaba & Ninthikal Branches<sup>16</sup>. It has also planned to enhance procurement and initiate processing and marketing expansion. Unlike arecanut, rubber has sustained market and possible growth. From 2017 onwards pepper is added to the portfolio of products which grows as a vine on the arecanut plants. Arecanut being the most important crop of the cooperative, that has thousands of farmers in its fold, CAMPCO's

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<sup>15</sup> Based on discussion with growers in Sagar Taluka of Malnad region

<sup>16</sup> Sourced from [www.campco.org](http://www.campco.org) visited on 10<sup>th</sup> August 2012.



attempt has been to ensure a good price, market and value addition to this crop. To ensure good market for arecanut, CAMPCO initiated many measures towards the alternative uses of arecanut. Value added products like Kaju supari, Campco A-1, etc were introduced. Arecanut Research and Development Institute (ARDI) was established in the year 1998 for developing alternative uses of arecanut. Though the organization has grown over the years and has been striving for the wellbeing of the arecanut growers, the organization faces number of constraints in terms of price fluctuations in the arecanut market, lack of capital, increasing administering cost, lack of Government support, lack of scale, etc. The procurement shares of CAMPCO in the total arecanut produced has been only to the extent of 10 to 15 percent of total production.

Overall, the CAMPCO model appears sustainable from the life-cycle analysis of it. CAMPCO has structured its organization in the growth stage where the institution is driven by established process. Secondly, instead of being aggressive and playing an active market leader role in arecanut procurement and marketing, it has played the non-interfering role that has helped not creating antagonism in the market on one hand and helped CAMPCO to protect the interest of the producers through its bearish role. Thirdly, in its growth stage CAMPCO has understood the limitations of promoting arecanut and hence encouraged farmers to divert from the crop, albeit with limited success. However, CAMPCO has succeeded in adding other crops to its fold including cocoa, rubber and pepper that has encouraged the producers to diversify into these crops. However, the biggest challenge for CAMPCO would be to contain the growth of arecanut cultivation in future and gradually push towards reduction in the area under this crop. Arecanut still remains the most important contributors to the overall revenue of CAMPCO.

## VIII. CONCLUSION

To conclude, we analyzed the factors responsible for evolution, growth and sustainability of cooperative institutions with the specific case of CAMPCO. We analyzed this using the modified theoretical framework of Co-operative Lifecycle by Cook (2018). CAMPCO, through our analysis appears to be a sustainable model. The factors that have led to sustainability of CAMPCO is its organizational structure and approach to cooperative that could sustain the trust of the members, appropriate decisions on diversification and withdrawal at the right time of growth phase. This case



study of CAMPCO also provides necessary understanding that can be implemented or observed in other similar agricultural marketing cooperatives.



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