

THE EFFECTS OF UNCERTAINTY AND CAPITAL SOURCE ON COOPERATIVE FIRM LEVERAGE

by

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Abstract

The organizational structure of cooperatives generates a complex link between member equity and overall corporate capital structure. This link is further complicated by macroeconomic and firm-based risks. This paper presents a model of optimal debt ratio, subject to cooperative financial characteristics and capital requirements. We test the proposition that macroeconomic and idiosyncratic uncertainty tend to decrease the optimal debt to total asset ratio. We find that macroeconomic and idiosyncratic risk negatively affect optimal borrowing in cooperatives with sales of \$25 million or less. Conversely, no clear relationship exists between these types of risk and cooperatives with greater sales. These findings suggest an important relationship between firm operations and member equity as small cooperatives contemplate entry into world markets.

Keywords: agricultural cooperative, risk, capital structure, equity valuation