Corporate Governance in Agricultural Cooperatives: A Perspective from The Netherlands

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Abstract

This paper explores the changes in corporate governance in agricultural cooperatives in the Netherlands. As cooperatives become larger and more complex, the relationship between board of directors and professional management seems to change. Information asymmetry may increase and managers may demand more decision rights. Changes in the function and composition of the board and supervisory committee have been introduced. Next to the traditional model, two new corporate governance models have been identified. Interviewing board members and managers provided an overview of the advantages and disadvantages of the different models for member participation and efficiency of decision-making.

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1. Introduction

While agricultural cooperatives in developed countries have experienced processes of strategic reorientation and restructuring, such as internationalization, new financial structures (Nilsson, 1999), and new ownership forms (Chaddad and Cook, 2004), the impact of these structural changes on the governance of the cooperative has not received much scholarly attention. Recently, however, attention for corporate governance in cooperatives is increasing, for at least two reasons. As cooperatives become larger, more complex and more international they do not escape the impact of the general discussions on corporate governance, on how to guarantee that managers pursue the interests of the owners of a company instead of only their personal interests. In addition, and this is more an internal issue, boards and managers in large, complex cooperatives have raised the question whether farmers have sufficient experience and knowledge to direct these large organizations.

The general discussion on corporate governance, particularly about publicly listed companies[2], has been fuelled by at least three developments (Becht et al., 2003). First, there is a need felt among the countries of the European Union to restructure rather archaic models of corporate governance and to internationally harmonize corporate governance regulation. Second, a number of financial scandals at the beginning of the 21st century have proved the need to improve transparency and control. Such scandals have taken place both in North America (such as Enron and WorldCom) and in Europe (such as Parmalat and Ahold). We could add a few cases of business failure among cooperatives (like AgWay and Farmland Industries in the USA, and Cebeco Group in Europe) that could also be attributed to a lack of manager accountability.[3] The third development mentioned by Becht et al. (2003) is the ongoing internationalization of companies, and thereby the need to internationally align corporate governance models. Also internationalizing cooperatives have experienced the substantial legal and cultural differences in cooperative corporate governance. Madsen and Nilsson (2007) show that differences in corporate governance culture have played a role in the failed merger (in 2004) between Arla Foods and Campina, respectively a Danish/Swedish and a Dutch/German dairy cooperative.

The other development that triggered debate on cooperative governance is the rapid changes in the agrifood markets and the necessary responses from cooperatives. Over the last decades, the market for agrifood products has become more competitive (due to reduced market protection) and more diversified (due to increasing consumer demand for variety, convenience and innovations). Cooperatives are no longer sheltered from these competitive pressures and respond by becoming more market oriented, more diversified and more innovative (Trechter 1996; Kyriakopoulos et al., 2004; Harte and O'Connell, 2007). These shifts in strategic orientation raise the question whether a board of directors consisting of farmers has the capabilities to lead the cooperative into these new fields of competition. Particularly large marketing cooperatives with branded product positions and international

[2] Becht et al. (2003: 18) found that most of the finance and corporate law literature on corporate governance focuses on collective action problems of shareholders, while the literature on representation of other constituencies is much less developed. Members of cooperatives are shareholders in the sense that they are owners, but they are not shareholders in the sense that their interest is in getting a return on investment.
[3] In the USA, the importance of corporate governance became dramatically clear in 2002 as a series of corporate meltdowns, frauds and other catastrophies led to the destruction of billions of dollars of shareholder wealth, the loss of thousands of jobs, criminal investigations of dozens of executives, and record-breaking bankruptcy filings (e.g. by Enron, Tyco, Adelphia, WorldCom and Global Crossing).

operations, thus competing with non-cooperative multinational food companies, are seeking ways to improve both the speed and quality of their decision-making processes.

The above mentioned corporate scandals have also set off a debate on the role of the board of directors and its effectiveness in monitoring management. "At the heart of this debate on board reform lies a fundamental unresolved economic question on the exact role of the board. Should the board of directors be seen as having only an (inevitably adversarial) monitoring role, or should directors also play an advisory role? And, even if the board's role is mainly one of oversight, will the board be able to effectively play this role if it has to rely on a CEO wary of the directors' response to disclose the relevant information about the company's operations?" (Becht et al., 2005: 72). Although the board of directors in a cooperative is not directly comparable to the board in an investor-owned firm, many cooperatives are adjusting the composition and the tasks of the board. It is, however, not clear a priori whether these adjustments are meant to strengthen the monitoring role or the advisory role of the board.

The main objective of this paper is to explore the changing role and position of boards of directors in Dutch agricultural cooperatives. This exploration consists of the three elements. The paper will, first, describe the developments in the corporate governance of the 30 largest cooperatives. Secondly, it will try to find explanations for these developments, using both literature and experts. Finally the paper will present information on how board members and managers of large cooperatives evaluate the changes in corporate governance.

The remainder of the paper is structured as follows. In Section 2 we present a brief overview of the key issues in the debate on corporate governance, and we will discuss which of these issues are relevant for cooperatives. Section 3 discusses the different roles of the board in corporate governance, both in general and specific for cooperatives. Section 4 presents empirical findings on the actual corporate governance of agricultural cooperatives in The Netherlands. We found that three corporate governance models dominate among Dutch agricultural cooperatives, and we have assessed the strengths and weaknesses of each of these models. Finally, Section 5 draws conclusions and presents a number of future research issues.

2. Corporate governance: a multidisciplinary perspective

The dominant view in economics is that corporate governance relates to the ways in which suppliers of finance to corporations assure themselves of getting a return on their investments (Shleifer and Vishny, 1997). In other words, corporate governance deals with the relationship between owners and managers. This relationship has been analyzed from a transaction cost economics perspective and, most common, from an agency theory perspective. Within transaction cost economics perspective, corporate governance is preoccupied with ways in which a corporation's insiders can credibly commit to return funds to outside investors and can thereby attract external financing (Williamson, 2007). However, the most frequently used theoretical perspective on corporate finance is agency theory (Tirole, 2006). The basic question here is how to make a manager as committed to the creation of long-term shareholder value as he would be if it was his own money. For instance, Shleifer and Vishny (1997: 738) state that their "perspective on corporate governance is a straightforward agency perspective, sometimes referred to as separation of ownership and control". In most firms this agency problem is complicated by the fact that ownership is dispersed among many different shareholders, often heterogeneous in number of shares. Thus, corporate governance is also about the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interests between various corporate claimholders (Becht et al. 2003: 3).

A broader perspective on corporate governance focuses on the relationships, in terms of authority, accountability and responsibilities between the main stakeholders of the firm. Corporate governance is about the extent of decision rights that several shareholders and their representative bodies have. It is about the clear division of tasks and responsibilities of these different bodies. It is particularly about the decision rights of the board and managers, and the need for transparency in decision-making. For instance, Roe (2005: 371) defines corporate governance as follows: “By corporate governance, I mean the relationships at the top of the firm – the board of directors, the senior managers, and the stockholders”. This perspective emphasizes that corporate governance is about the process and structure of decision-making. Yin and Zajac (2004) define the corporate governance structure as the organizational design that incorporates systems of decision-making, operational control, and incentives. Grandori (2004) defines corporate governance as the problem of devising ways to allocate decision-rights and rewards, as well as a problem of coordination and human resource management. Monks and Minow (2008: 3) define corporate governance as “the structure that is intended to make sure that the right questions get asked and the checks and balances are in place to make sure that the answers reflect what is best for the creation of long-term, sustainable value”.

Finally, there is wider societal perspective on corporate governance. This broad perspective on corporate governance emphasizes that companies have a societal role and that “business is not just about business”. This perspective tries to find an answer to the key question of how to manage corporate value creation in a manner that minimizes negative externalities onto society at large. Within this perspective corporate governance does not only deal with the allocation of decision and income rights among managers, shareholders and directors, but also with the impact of decisions by managers and directors on other internal and external stakeholders. Internal stakeholders often mentioned in this perspective are the employees of the company. For instance, in large German companies employees have a statutory right to appoint a representative in the board of directors (Moerland, 1995).

Key issues of corporate governance

Roe (2005) argues that the core problem of corporate governance has a vertical and a horizontal dimension. The vertical dimension is between senior managers and distant shareholders. The focus here is on keeping the senior managers loyal to the shareholders, and competent to the task of managing the firm. The horizontal dimension is between dominant shareholders and dispersed shareholders. The horizontal focus is on preventing or minimizing the shifts in value from dispersed outsiders to controlling inside stockholders.

Becht et al. (2003: 41) discuss a number of issues of corporate governance that often appear in both practical and academic literature. These issues relate to the following questions: Who should participate in corporate governance? How to solve the collective action problem of supervising management? How to regulate takeovers and the actions of large investors? How boards should be structured? How managers’ fiduciary duties should be defined? What are appropriate legal actions against managerial abuses? How to discipline the management?

Particularly the issue of disciplining management has received much attention in the academic literature on corporate governance. The solution to this agency problem is often a combination of the following disciplinary mechanisms (Becht et al., 2003; Cools, 2005):

1. Election of a board of directors representing shareholder's interests, to which the CEO is accountable;
2. Monitoring of the firm by the market, including the effect of competition on product markets, labor markets and resource markets;
3. The threat of a hostile takeover (in case of the company is under-performing);
4. Active and continuous monitoring by a large shareholder;
5. Alignment of managerial interests with investors through executive compensation contracts;
6. Legislation, as well as codes of conduct.

Formal versus real authority

Williamson (2008: 254) argues that "the board in practice is at a huge disadvantage to the top management of the corporation in information and expertise respects. Thus, whereas the management is involved with the corporation on a full-time basis and has the benefit of accounting, legal, financial, engineering, planning, and managerial staff expertise to track and interpret the past performance of the firm and develop projections for the future, the membership of the board is part-time and lacks firm-specific knowledge in all of these respects." Because of this asymmetric information between board and management, Williamson (2008: 259) emphasizes that delegation is an efficient means by which to assign problems to those with the better training, ability, and/or deeper knowledge of the particulars (to include tacit knowledge acquired through learning by doing).

Organization theory often emphasizes the advantages of delegating decision-making to professional management. The key issue is asymmetric information between principal and agent, in our case between board of directors and management. While the board may have formal authority (partly shared with the general assembly), the real authority may lie with the management due to its superior knowledge of both the firm and the competitive environment. When the board does not hold real authority, it may better delegate formal authority. Aghion and Tirole (1997), in their theoretical paper on the allocation of formal and real authority, suggest that "the delegation of formal authority to a subordinate will both facilitate the agent's participation in the organization and foster his incentives to acquire relevant information about the corresponding activities". However, delegation involves a costly loss of control for the principal. As a result of this trade-off, formal authority will not be delegated for all decisions. Aghion and Tirole (1997) found that formal authority is more likely to be delegated for decisions that (among others) are sufficiently innovative that the principal has not accumulated substantial prior expertise or competencies.

Governance issues relevant for cooperatives

Not all of these issues in the debate on corporate governance are relevant for cooperatives, as they have special ownership and governance features. Hendrikse and Veerman (2001) have identified a number of differences between cooperatives and investor-owned firms. First, in marketing cooperatives farmer-members often depend to a large extend for their income on the performance of the cooperative. The relationship between farmer-member and marketing cooperative is usually characterized by high asset specificity, which leads to high switching costs for the farmer if he has to terminate his membership. Farmers and their boards have a strong incentive to perform their job in controlling the management (Hansmann, 1996). Second, farmers have invested in their cooperatives, if not on purpose than at least by the earnings that have been retained by the cooperative. However, cooperatives do not issue shares, or if they do, these shares are not tradable. Thus, again, members and their boards have a strong incentive to supervise the management.

Other differences in corporate governance mechanisms between cooperatives and investor-owned firms relate to disciplining the management (Staatz, 1987; Trechter et al., 1997). Cooperatives do not have external mechanisms for disciplining the management. Unlike stock-listed companies that are scrutinized by the financial media (on behalf of current and potential shareholders, there is no external financial assessment of the performance of the cooperative (and its management). Also the threat of hostile takeover is not available for disciplining the management. Finally, the alignment of managerial interests with members through executive compensation contracts is more complicated in cooperatives compared to stock-listed companies, who can use the share price as a performance measure and can use shares and share options as part of the remuneration package. These differences imply that for disciplining the management cooperatives rely on active and continuous monitoring by the board of directors. Also legislation and codes of conduct may be relatively more important for cooperatives.

The issue of the allocation of formal and real authority and of delegation is particularly relevant for cooperatives. As the board consists of farmers who have no experience in running a large commercial firm and are only part-time board members, and the management has much better information on the key capabilities of the firm as well as on the strategies of its competitors, the board is likely to delegate part of its formal authority to the management. Also the findings of Aghion and Tirole (1997) that formal authority is most likely to be delegated for innovative projects seem to be particularly relevant for cooperatives developing branded product positions in consumer markets.

3. Different roles of governing boards

As we have stated in the introduction, a major issue in the debate on corporate governance is the role of the board of directors. Is the board primarily a body for controlling the management, i.e., monitoring whether managers are properly implementing the decisions taken by the board, or is it an advisor to the management? In case of a cooperative, the board is more restricted in the above choice, because it is expected to represent the interests of one particular group of stakeholders, namely the members of the cooperative.

Writing about corporate governance in general, Hung (1998) has developed a typology of different theories on the roles of governing boards. He distinguishes the following six theories:

- resource dependency theory and **linking role**: the board links the organization to its external environment, particularly guaranteeing access to valuable resources;
- stakeholder theory and the **coordinating role**: the board coordinates the interests of the various stakeholders;
- agency theory and the **control role**: the board makes sure that the management conforms with the interests of those represented by the board;
- stewardship theory and the **strategic role**: the board supports the management in taking strategic decisions that lead to optimal performance of the organization;
- institutional theory and the **maintenance role**: the board focuses on indoctrinating the organization by understanding and analyzing the external (institutional) environment;

- managerial hegemony theory and the **support role**: the board serves as a “rubber stamp” in supporting the decisions of professional management.

The first four theories use a contingency perspective, which means that the role of the board is mainly shaped by factors that are time and location specific. Within this group, Hung further distinguished between on the one hand the resource dependency and stakeholder theories which emphasize the influence of the external environment, and on the other hand the agency and stewardship theories which emphasize the influence of the internal environment. The institutional and managerial hegemony theories start from an institutional perspective, which means that the role of the board is mainly to conform to institutional expectations.

Applying Hung’s typology to cooperatives, Cornforth (2004) has substituted the institutional theory by what he calls the democratic perspective. This perspective suggests that the job of the board is to represent the interests of members of the organization. The role of the lay or non-professional board is either to resolve or choose between the interests of different groups among the membership and set the overall policy of the organization, which can than be implemented by the professional staff.

The different theoretical perspectives have different implications of who should serve on the board. The opposition is clearest between the stewardship and democratic perspectives. Stewardship theory stresses that board members should have expertise and experience that can add value to the performance of the organization. The implication is that board members should be selected for their professional expertise and skills. In contrast, the democratic perspective (and to some extent the stakeholder theory) stresses that board members are representatives of a particular group of stakeholders.

Cornforth (2004) has taken the six board roles of Hung as starting point for his discussion of the ambiguities that often prevail in boards of cooperative organizations. He distinguishes three such tensions or paradoxes:

- The first tension relates to the question of who should be on the board of directors, representatives or experts. Should the board consists of representatives of the main stakeholders (i.e. the users of the cooperative) or should it consist of people with the proper expertise?
- The second tension relates to the question what should be the main function of the board: conformance or performance? That is, should the board take a defensive position in strategic decisions by mainly defending the interests of the members or take an offensive position by driving forward organizational performance through adding value to the organization’s strategic decisions.
- The third tension, and related to the second one, is about the relationship between the board and the management. Should the board monitor and control the management, or should it be much more a partner of the management? This tension originates from the fundamental question whether board and management have converging or diverging interests.

As the next section will show, these tensions or paradoxes about the role and composition of the board of directors in cooperatives are not just theoretical constructs but have been guiding the changes in cooperative corporate governance.

4. The governance of Dutch agricultural cooperatives

4.1 Data and methods

Data on the corporate governance models of Dutch agricultural cooperatives have been collected by several means according to a stepwise approach. In step 1, general information on changes in cooperative corporate governance has been collected through literature study. In step 2, the findings from literature have been discussed in personal interviews with six Dutch experts on cooperatives. Together step 1 and 2 resulted in an overview of the main shifts in corporate governance among Dutch agricultural cooperative (section 4.3) and in the description of two new models of cooperative corporate governance that can be found in the Dutch practice (section 4.4). In step 3, corporate documents (such as Annual Reports, brochures and newsletters) and corporate websites have been studied to find out what corporate governance model the 30 largest cooperatives in The Netherlands currently apply (also presented in section 4.4).

Finally, in step 4 a number of semi-structured interviews have been held with members of the board of directors as well as with managers of different Dutch agricultural cooperatives. The objective of these interviews was to obtain personal experiences with particular (changes in) forms of cooperative corporate governance. All interviews were held in 2006. Table 1 provides the background of all interview respondents. During the interviews, respondent were given a number of propositions on the advantages and disadvantages of having a particular governance instrument. The respondents were asked to assess these advantages and disadvantages according to their own experiences. Results of these interviews are presented in section 4.5. Section 4.2 describes the traditional governance model prevailing for a long time in Dutch agricultural cooperatives.

Table 1. Background of interview respondents

Member of Board of Directors	Governance model*	Member of Board of Directors	Manager
Flower auction cooperative	Traditional	X	X
Fruit marketing cooperative	Traditional	X	X
Arable crop marketing cooperative A	Traditional	X	X
Arable crop marketing cooperative B	Management	X	
Dairy marketing cooperative A	Corporation	X	X
Dairy marketing cooperative B	Corporation	X	
Vegetables marketing cooperative	Corporation		X
Inputs supplying cooperative	Corporation	X	X
Service providing cooperative	Management	X	

* these models will be explained in Sections 4.2 and 4.4.

4.2 The traditional governance model

Under Dutch cooperative law a cooperative is both an association and a firm. More specifically, in Dutch law, a cooperative is defined as a firm that performs economic functions to the benefit of the members and that has the legal status of an association (Galle, 2002: 607). Thus, all requirements as to the governance of associations also apply to cooperatives. According to Dutch law, all associations have two governing bodies: a General Assembly

(GA) and a Board of Directors (BoD). A third governing body, the Supervisory Committee (SC), is not compulsory for associations, but common in cooperatives and it is even legally required for large cooperatives. A fourth governing body can be found among large associations and most cooperatives: the professional board of management. In this section we will briefly describe the tasks and responsibilities of these four governing bodies as they prevail among Dutch agricultural cooperatives.

The **General Assembly (GA)** consists of all members of the cooperative. Within this general assembly each member has at least one vote. Unlike many other countries, which closely follow the cooperative principles of the ICA, Dutch law on cooperatives does not prescribe the one-member-one-vote principle. Most cooperatives apply some kind of proportional voting rights, although always with a (rather low) maximum number of votes per member (Galle, 1999: 23). Voting in the GA is used to make decisions on the selection of the members of the Board of Directors, selection of the members of the Supervisory Committee, as well as on major issues like terminating the cooperative, mergers of the cooperative, changing the by-laws. The GA also has the right to approve (or disapprove) the annual financial report. The control function of the GA is mainly done ex-post.

The **Board of Directors (BoD)** is the main decision-making body; it initiates, develops and decides upon the strategies and policies of the cooperative. The BoD, as the fiduciary agent of the members, has the formal authority and legal responsibility to act in the best interests of the members. According to Dutch association law, the BoD can consist of one person, but it is more common to have a number of directors. Traditionally, the BoD consists of members of the cooperative, but it is allowed, under association law, that the BoD partially or fully consists of persons that are not members of the association/cooperative. The members of the BoD are elected by the GA, and the BoD is accountable to the GA. The BoD appoints the professional managers of the cooperative. An important function of the BoD is evaluation of the management. Even in the situation where the cooperative has a professional management, the BoD continues to be, according to the law, the main governing body, with its legal responsibilities and liabilities. Decisions of the BoD are taken collectively; responsibilities and liabilities are borne collectively.

The **Supervisory Committee (SC)** is responsible for supervising the activities and decisions of the BoD. This supervision (or control) function is performed ex-ante. As there is no legal obligation for associations and small cooperatives to have a SC, the exact tasks and responsibilities of the SC are determined in the by-laws of the individual organization. The SC is appointed by the general assembly. Traditionally, the SC consists of members of the cooperative. However, recently more and more cooperatives have appointed non-members in their SC (see below). Since 1989 cooperatives that have more than 16 million Euro equity capital, are obliged to have an employee council, and have more than 100 employees are legally required, just like IOFs with these size characteristics, to have a Board of Commissioners (BoC) as supervisory body (Galle, 1999). The legal responsibility of the BoC is to look after the interests of the company as a whole, not just the interests of one group of stakeholders. Particular BoD decisions have to be approved by the BoC, and the employee council has the right to approve new members of the BoC. Still, a number of important differences apply to the BoC of cooperatives compared to the BoC for IOFs (Galle, 1999: 34): members of the BoC are not selected by cooptation, but are appointed by the GA; the BoD is not appointed by the BoC but by the GA; the annual financial report is not approved by the BoC but by the GA; the by-laws of the cooperative may stipulate that maximum 2/3 of the members of the BoC are members of the cooperative.

Traditionally the role of the **management** has been to execute the decisions taken by the BoD. However, as cooperatives have grown in size and complexity, the management has taken over major functions of the BoD. Using the terminology of Fama and Jensen (1983), large cooperatives now have a separation of decision management and decision control. Thus, while the BoD continues to be responsible for decision control (i.e., ratification and monitoring), the professional management has acquired the responsibility for decision management (i.e., initiation and implementation). The professional managers (such as CEO and CFO) are appointed by the BoD, often after consultation with the SC.

Figure 1 shows the relationships among the four governing bodies in a traditional Dutch cooperative. The GA elects, from the membership, the members of the board of directors. The BoD is the main decision-making body on strategic and operational issues. The GA also elects, from the members, a supervisory committee to supervise the BoD. Finally, the BoD, with the help of the SC, appoints the management, which is responsible for executing the decisions made by the BoD. This *traditional model* has been used by Dutch agricultural cooperatives for many decades.

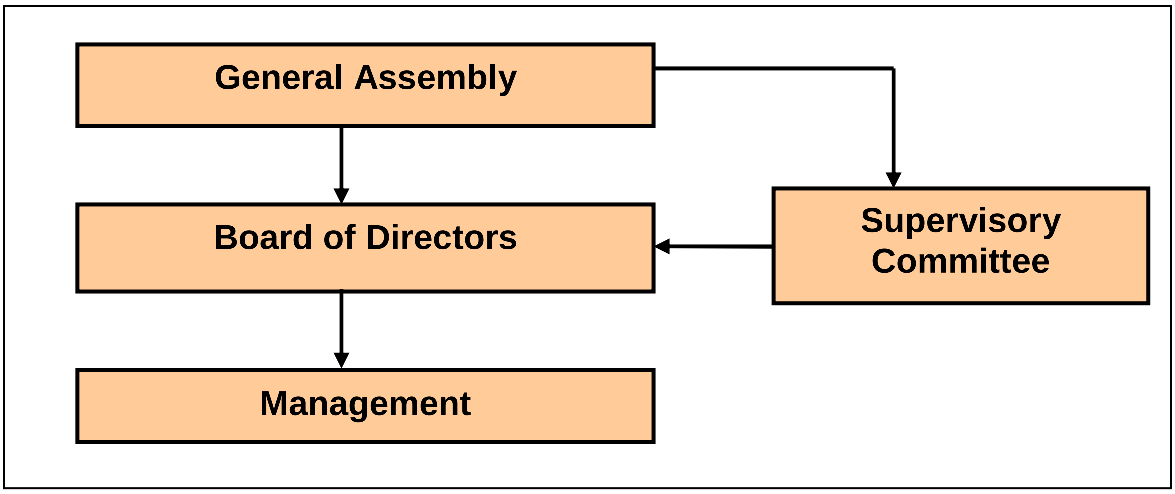

Figure 1. The Traditional Model of Cooperative Governance

4.3 Recent changes in cooperative corporate governance

Over the last 15 years, there have been significant changes in the corporate governance of agricultural cooperatives in the Netherlands. Most of these changes affect the relationship between the BoD and the management as well as changes in the role of the SC. Changes in the corporate structure of Dutch agricultural cooperatives have been described mainly by legal scholars (e.g. Galle, 1999; Dortmond, 1999; Van der Sangen, 2001). As Dutch cooperative law as well as association law allows much freedom for individual choices at organizational level, a range of different options for the role and structure of the BoD exists. Schreurs-Engelaar (1995) has been one of the scholars to provide a structured discussion of the different options available for Dutch cooperatives. These options relate to the legal form of the cooperative and its subsidiaries, the role and composition of the BoD, the role and composition of the SC, and the implementation of a member council (see Table 2).

Table 2. Corporate governance choices for Dutch agricultural cooperatives

	Corporate governance element	Choice
1	Legal structure	One legal organization or two legal organizations (i.e., a legal separation between association and firm)
2	Composition of Board of Directors	Only members or also outside experts
3	Composition of Board of Directors	Professional managers included or not
4	Function of the Board of Directors	Leading or supervising the cooperative firm
5	Function of the Supervisory Committee	Supervising the association (the BoD) or the firm (management)
6	Composition of Supervisory Committee	Only members or also outside experts
7	Member Council	Yes or no

The first choice deals with the question whether the activities of the cooperative are carried out within the cooperative itself or within a legal person that is owned by the cooperative. Cooperatives can decide to place all their economic activities and assets in a separate legal entity – a BV (similar to Ltd in the UK) or a NV (similar to Plc in the UK) – and turn the cooperative association into a holding company. This choice implies that the dual character of a cooperative has been formalized by a division into two separate legal entities, the cooperative association and the cooperative firm. Often the cooperative association forms a holding company, while to BV or NV forms a sub holding for a number of subsidiaries. The main reason for cooperatives to install this legal separation may be to reduce the liabilities for the cooperative and to apply a more distinction between the association and the company (Van der Sangen (2001). Most cooperatives nowadays have this legal separation. Additional explanations are mentioned in Section 4.5.

The second choice deals with the question who are the members of the BoD. Should the BoD consists of only members of the cooperative, or should outside experts be invited to join the BoD? These outside experts may bring along special knowledge, for instance about finance or marketing, which the other members of the board (farmer-members of the cooperative) may not have. Moreover, these outside experts may have experience in leading a large company themselves. Schreurs-Engelaar (1995) warns that outside experts, particularly if they are former managers, may become rather dominant in the decision-making process. The most extreme version of a BoD with outside experts is the BoD consisting only of outside experts. This brings us to the next issue.

The third choice relates to the question whether the manager(s) should be part of the BoD. This situation resembles the one-tier board model for corporate firms that can be found in many countries but is not common in the Netherlands. One step further is that the BoD only consists of professional managers, which implies there are no longer farmer-members of the cooperative participating in the BoD.

The fourth choice relates to the main function of the Board of Directors. While traditionally the BoD was the main decision-making body of the cooperative firm, with the management mainly for executing the decisions taken by the BoD, nowadays most of the real authority lies with the professional management. The function of the BoD may shift towards a more supervisory role.

Changes in the role and structure of the BoD often also leads to changes in the function and composition of the SC (Dortmond, 1999). Thus, the fifth choice as to the corporate governance structure of the cooperative deals with the main function of the Supervisory Committee. As said above, where cooperatives have become larger and more complex, the SC has obtained the legal status of BoC, with one of its main tasks to control the management of the cooperative firm. However, as the BoD in large cooperatives has delegated most of the decision management to professional managers, it turned into some kind of supervisory board itself. This resulted in these cooperatives having two bodies for supervisory/control tasks, the BoD and the BoC/SC. Some cooperatives has solved this issue of double control by introducing a personal union between the members of the BoD of the association and the BoC/SC of the firm.

The sixth choice relates to the composition of the BoC/SC. Similar to the changes in composition of the BoD, a cooperative can also decide to have both members and outside experts in the SC. Van Dijk (2006) found that, in 2005, 26 of the 40 largest cooperatives had outside experts in the BoC/SC. Most of these experts (28%) had experience as managers of large companies themselves; 18% had experience as financial managers. Other fields of expertise were HRM, marketing, retail, academia and politics. Incorporation of external experts in the BoD and the BoC/SC has been considered as a trend towards more professionalism of the governance of the cooperative.

The seventh choice relates to the implementation of a Member Council (MC). In the last decade, more and more cooperatives have installed a MC which has taken over most of the functions of the GA. The MC consists of cooperative members and it is appointed by the GA. In large cooperatives, members are usually organized in geographical districts. The chairman of the district board, who is elected by all members of the district, becomes a member of the member council. Reasons for large cooperatives to establish a member council are the needs felt by the BoD to bridge the gap between BoD and the membership and to have a group of committed members from which future board members can be selected. Although this may not imply a shift in the relationship between board and management – the key part of corporate governance – it does imply a shift in the relationship between members and cooperative, and it may affect the influence and thereby the commitment of members.

These choices are not unrelated. Due to legal restrictions, cooperative cannot just change individual corporate governance elements, but can only adjust combinations of elements. This leads to particular corporate governance models, of which the above described traditional model is the first. In the next section we present two new governance models that have appeared among Dutch agricultural cooperatives.

4.4 New governance models

On the basis of 2006 data for the 30 largest agricultural cooperatives in The Netherlands, a typology of various models of cooperative corporate governance was developed. In addition to the traditional model of cooperative corporate governance, we distinguish two new models: the management model and the corporation model.

Figure 2 presents the management model of cooperative corporate governance. The main characteristic of this model is that the management of the firm is also the BoD of the association. As the management consists of external professionals, this model implies that the

BoD no longer consists of members of the cooperative. The Supervisory Committee is often replaced by the – legally required – Board of Commissioners (BoC), while the main tasks of the General Assembly have been taking over by a Member Council (MC).

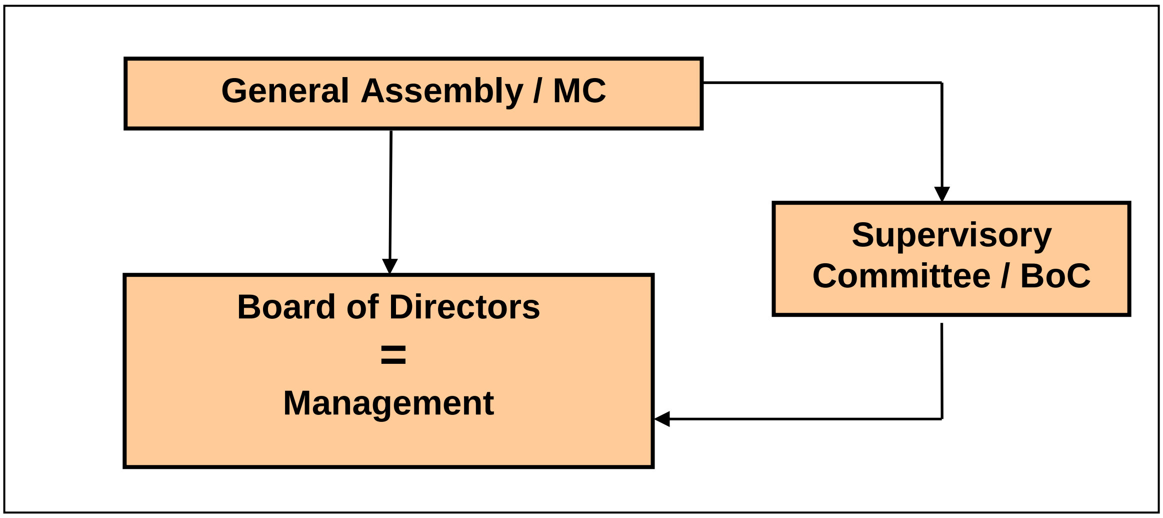

Figure 2. The Management Model of Cooperative Governance

Figure 3 presents the corporation model of cooperative corporate governance. The main characteristic of the corporation model is that the BoD of the association forms a personal union with the SC/BoC of the firm. While the BoD can (but does not have to) consist of only members of the cooperative, the SC/BoC also comprises a number external experts. This model implies that there is not a separate supervisory committee at the level of the association.

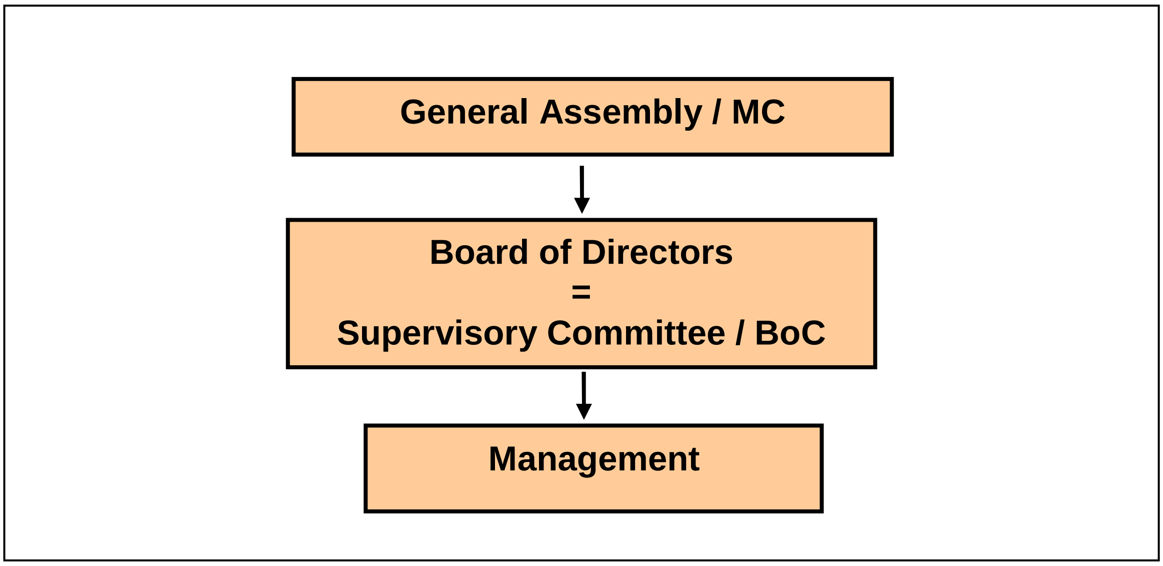

Figure 3. The Corporation Model of Cooperative Governance

Of the top 30 agricultural cooperatives, 14 still adhere to the traditional model, 7 apply the management model, and 9 had chosen the corporation model (see Table 3).

Table 3. Board models of the 30 largest ag. cooperatives in The Netherlands (2006)

	Name	Main product	Turnover 2006, Euro	Traditional model	Manage-ment model	Corpora-tion model	Member Council
1	Friesland Foods	dairy	4675	0	0	1	Yes
2	Campina	dairy	3624	0	0	1	Yes
3	FloraHolland	flowers	2136	1	0	0	No
4	Aalsmeer	flowers	1756	1	0	0	No
5	Cosun	sugar	1469	1	0	0	Yes
6	The Greenery	vegetables	1448	0	0	1	Yes
7	Cehave Landbouwbelang	feed	664	0	1	0	Yes
8	AVEBE	potato starch	634	0	1	0	Yes
9	Agrifirm	feed	576	0	0	1	Yes
10	Cebeco Group	poultry	556	1	0	0	No
11	DOC Kaas	dairy	358	0	1	0	Yes
12	CNB	flower bulbs	327	1	0	0	No
13	FresQ	vegetables	317	1	0	0	No
14	FromFarmers	feed	313	0	1	0	Yes
15	Fruitmasters	fruit	265	1	0	0	no
16	ZON	vegetables	237	0	0	1	Yes
17	CZAV	inputs for arable farming	214	0	1	0	Yes
18	Agrico	seed potatoes	200	0	1	0	Yes
19	CNC	mushrooms	186	0	1	0	No
20	VDT	vegetables	155	1	0	0	No
21	Rijnvallei	feed	150	0	0	1	Yes
22	Horticoop	inputs for horticulture	144	1	0	0	No
23	CONO	dairy	133	1	0	0	No
24	CR Delta	cattle breeding	125	0	0	1	No
25	Boerenbond Deurne	inputs	116	1	0	0	No
26	BGB	vegetables	99	1	0	0	No
27	Pigture Group	pig breeding	85	0	0	1	No
28	Rouveen	dairy	65	1	0	0	No
29	Nedato	potato	63	0	0	1	No
30	Boerenbond Ysselsteyn	inputs	59	1	0	0	No

4.5 Advantages and disadvantages of different models

Each of the new models of cooperative governance brings along advantages and disadvantages, such as for the influence of the members, the speed of decision-making, transparency of decision-making, accountability, and entrepreneurial room for the managers. We will first discuss the experiences with the two new cooperative governance models and then discuss a number of individual governance characteristics that can be included in different governance models. As said above, this assessment of the different governance elements is based on interviews with both managers and directors of agricultural cooperatives.

Advantages and disadvantages of the management model

In the professional literature as well as in the interviews with directors and managers at least three advantages of the management model are frequently mentioned. First, the main advantage of this model is what has been called the professionalization of the BoD. Instead of having a board that consists of part-time directors, with no experience in running a large company, the cooperative firm obtains a board consisting of professional managers (Schreurs-Engelaar, 1995). Second, there is no longer a kind of double control, by the BoD and by the SC/BoC. Third, the management has obtained more autonomy, which provides room for more entrepreneurship at the level of the cooperative firm.

The main disadvantage of the management model as mentioned by the respondents is the loss of direct influence of the members (through their BoD in the traditional model) on the management. Only through the SC/BoC the members can exert their influence, but the SC/BoC has fewer control rights in this model than the BoD has in the traditional model.[4] It was often mentioned that this model creates a larger distance between members and the cooperative firm. Another disadvantage is the lack of a clear distinction between the responsibilities of the BoD, for instance vis-à-vis the members, and those of the management. For a professional BoD it may be difficult to distinguish between its responsibilities as the BoD of the cooperative and as the management of the cooperative firm. A third disadvantage mentioned was the lack of a sparring partner, for the management, for monitoring member interests or ex-ante evaluating management decisions on member interests.

Advantages and disadvantages of the corporation model

A key characteristic of the corporation model is the personal union between the BoD of the cooperative association and the SC/BoC of the cooperative firm. The main advantage of the corporation model, as mentioned by both board members and managers, is the absence of double supervision of the management (by the BoD and by the SC/BoC). The firm has only one supervisory body, which, although it consist for (a maximum of) two-thirds of members of the cooperative, is more closely involved in the firm's business, compared to the SC under traditional model. A second advantage is the larger autonomy for the management. Also having just one body that attends to the interests of the members ánd the firm may prevent conflict between different governance bodies.

A disadvantage mentioned for the corporation model is that it may be difficult for the members of the BoD who also participate in the SC/BoC to really align the interests of the members and those of the firm. In practice, they may tend to favor firm interests above

[4] Often, a reduction of direct member influence has been one of the reasons to apply this model, certainly from a manager perspective.

member interests. Another disadvantage is the absence of a supervisory committee at the association level. This problem can be partly solved by establishing a member council.

Advantages and disadvantages of the legal separation between association and firm

When asked about the advantages of the placing the firm in a separate legal entity, as most cooperatives have now done, the answer was that it improves the speed of decision-making and that leaves more options for acquisitions. A disadvantage mentioned was that it becomes more difficult to merge with a cooperative that still has the traditional structure. Interestingly, both advantage and disadvantage are mainly managerial implications. The issue of liabilities, mentioned by Van der Sangen (2001) as one of the main reasons, was not considered an important issue by the board members and managers interviewed.

Advantages and disadvantages of having outside experts in the BoD

Of the 30 cooperatives we studied, about half of them have outside experts in the Board of Directors. The main advantage mentioned was the improvement of the quality of the decisions by bringing in specific expertise (such as marketing or finance) as well as by adding experience of managers of large companies (the latter argument seems most relevant for those BoD that also form the SC/BoC of the company). The disadvantages most often mentioned were the differences in focus that outside experts may have compared to members of the cooperative. Members are generally more long-term oriented, while external directors usually focus more on short-term financial objectives. Another disadvantage may be that external directors may have a relatively large influence on decision-making.

Advantages and disadvantages of having a Member Council

The last governance element we studied was the installation of a member council. Why do cooperative decide to include a member council in the governance structure? As shown in Table 2, out of the 30 cooperatives 13 had a member council in 2006. Table 2 also shows that large cooperatives are more likely to have a member council, and that cooperatives with a corporation governance model all have a member council. The following advantages were mentioned during the interviews: (1) the member council can be more actively involved in decision-making than the general assembly; (2) for the BoD, the member council is a more critical representative body than the general assembly; and (3) the member council is an appropriate instrument to guarantee that all product groups, regions, districts (including foreign members) are involved in the cooperative. The disadvantages mentioned were: (1) it leads to lower involvement in decision-making of other member of the cooperative; and (2) it increases the distance between members of the cooperative and the BoD.

5. Conclusion and Discussion

The purpose of this study was threefold. First, to find out what changes are taking place in the governance structure of Dutch agricultural cooperatives. Second, to find out why these changes have occurred. And third, to find out how board members and managers of large cooperatives evaluate these changes.

We found that all of the 30 largest agricultural cooperatives in the Netherlands have changed some elements of their corporate governance structure over the last 20 years. All of the cooperatives we studied have established a legal separation between cooperative association and cooperative firm. Reasons for introducing this legal distinction are reducing liabilities for the cooperative and improving the speed of decision-making at the level of the firm. Another innovation in the corporate governance structure has been the introduction of a member council which has taken over most of the tasks of the general assembly. Out of the 30 cooperatives 16 have established a member council, mainly to have a group of members more actively involved in decision-making than the general assembly usually is (and also to create a pool of potential board members). About half of the cooperatives studied have persons in the board of directors that are not members of the cooperative. These so-called outside experts are invited to join the board because they bring in specific financial and marketing expertise. Finally we found that in addition to the traditional model two new corporate governance models have developed: the management model and the corporation model.

In the management model the professional management has become the board of directors of the cooperative association. This model strengthens the relationship between the association and the firm. The decisions and activities of the management are only controlled by the supervisory committee, no longer by a board of directors consisting of cooperative members. The main advantages of this model are the professionalization of the board and the greater autonomy for the management. The main disadvantage of this model is the loss of direct influence of the members.

In the corporation model the board of directors of the association has formed a personal union with the supervisory committee (often called board of commissioners) of the cooperative firm. The main advantage of this model is the absence of double supervision of the management. This should lead to speedier decision-making. The main disadvantage mentioned by our respondents is the difficulty for the board of directors/supervisory committee to play the two roles at the same time.

Assessing the changes among Dutch cooperatives with the help of the three tensions of Cornforth (2004), we can derive the following conclusions. As to the question about the composition of the BoD, we can conclude that there has been a shift from a board purely consisting of representatives of the main stakeholders (i.e. the members of the cooperative) towards a board that also includes outsiders bringing in specific expertise. As to the question whether the board should focus on conformance or performance, there is a shift, at least among a number of cooperatives, towards performance. The introduction of the management model is an indication that performance has become more important than defending the interests of the members. The third tension is about the relationship between the board and the management: should the board control the management or should it be a partner of the management? For this issue we do not see a clear trend, although the introduction of the corporation model seems to suggest that board has been placed at a larger distance from the management, suggesting that board and management have diverging interests and that control is the main task of the board.

Answering the question whether these changes in cooperative corporate governance are specific to The Netherlands or whether they also take place in other countries is beyond the scope of this paper. We do know that The Netherlands has a flexible (or better: enabling) cooperative legislation, which provides room for different innovations in corporate governance. For instance, cooperatives in The Netherlands are not obliged to apply the one-member-one-vote rule so common in many other countries.

Although cooperatives fall under association law and therefore apply democratic decision-making, the innovations in corporate governance have reduced the decision-making rights of the members. By introducing a legal separation between association and firm democratic decision-making does no longer apply to the cooperative firm. Only indirectly, members can influence the strategies and policies of the firm. Under the traditional model they still have most influence; under the management and corporation model, the management has gained more autonomy in decision-making. Following the theory of Aghion and Tirole (1997) we can say that the management not only has real authority but also has obtained more formal authority. This issue of reduced member influence was acknowledged by most of the managers and board members we spoke. The main instrument to regain some member influence was to install a member council. All of the cooperatives with a management model (in our sample) have established a member council.

An interesting observation is that agricultural cooperatives in The Netherlands have changed their corporate governance structure without changing their financial structure. Several authors have suggested that financial problems of the cooperative will lead to new ownership structures (Cook, 1995; Nilsson, 1999; Chaddad and Cook, 2004). Among Dutch cooperatives there does not seem to be relationship between changes in corporate governance structure and (perceived) financial constraints of the cooperative.

Our findings also lead to a number of interesting questions for future research. One (empirical) issue is about how cooperative actually deal with the disadvantages of the new governance elements. As the new governance models seem to put members at a greater distance from the firm, member commitment could be at stake. Thus, the relationship between changes in corporate governance and member commitment is worthwhile studying. A second question relates to diversification of the cooperative (Hendrikse and Van Oijen, 2006; Hendrikse et al., 2009). Does diversification lead to a need for more managerial authority, of is the change in corporate governance a result of cooperative diversification? Third, is there a relationship between the type of corporate governance and the age of the cooperative, or the stage of the life cycle of the cooperative? Hind (1997) found that organizational focus of cooperative businesses change over time. She also found a positive relationship between business age and increasing corporate, as opposed to member, orientation. Finally, a key issue is the impact of changes in corporate governance on the performance of the cooperative.

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