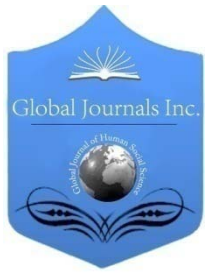
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Divergences of Interest and Relations of Agency: Case of the Cooperative Firms

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I. Introduction

The study of the relation between the performance of the firms and the structure of property constitutes a privileged and old topic of the economic literature which finds in particular its origin in the work of Berle and Means [1932][1] and the description of the problems caused by the separation of the functions of property and decision.

The recognition of this separation led in particular to the development of managerales designs of the firm according to which the leaders are supposed to pursue other goals that the maximization of the value of market of the inheritance of the shareholders; this divergence would imply the rupture of the bond between the social function of the private property and the optimal allowance of the resources in the economy.

Indeed, the passage of the firm entrepreneurial at the firm managerial characterized by the separation of the property and management calls into question the nicety of the objective of maximization of the profit continued by the owner.

Nothing excludes that the managers do not manage the company with the objective of maximization of their function of utility. What raises the question of the control of the firm by its owners. This question of the control of the firm is made extreme with the scandals of corruption and abuse of power of certain leaders of great groups. What led to the debate on the "corporate governance"[2]

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[1] Chareaux, G " structure of property, relation of agency, and financial performance " review economic flight 42, 1991.

[2] Charreaux G, the government of the companies. Corporate Governance, Theories and facts, Economica, Paris.

However, the question of the governance of the firms does not relate to only the companies dimensioned out of Stock Exchange or the multinational firms, but all the organizations in which exists a separation between managers and owners.

The agricultural cooperatives constitute, for this reason, a significant example of these organizations. Indeed, in these companies, one notes that the members (peasants), even if they intervene in the management of the co-operative are not always the true decision makers.

This article proposes to answer the two following questions:

- Which are the fascinating parts or "stakeholders" in the co-operatives and primarily in the agricultural cooperatives?
- Which are the conflicts of interest between these fascinating parts and up to what point the co-operative mechanisms contribute to reduce or solve these conflicts?

The paper is organized as follows: Section 2 reviews the cooperative and model "stakeholder". Section 3 analyzes the conflicts of interests and government of cooperatives agricultural. Section 4 presents the resolutions of conflicts in agricultural cooperative.

II. The Cooperative and Model "Stakeholder"

The co-operative can be defined as " an association of people who voluntarily grouped to achieve a common goal by the constitution of a democratically directed company, by providing a quota of the capital necessary and by accepting a right participation in the risks and the fruits of this company to the operation of which the members take an active part " (Vienney C, 1994)[3].

This definition makes it possible to underline three characteristics specific to the co-operative company. Initially, its democratic character, which supposes an equality between the members in the event of vote. What results in the principle "a person, a voice", contrary to the principle "an action or a social share, a voice" in the other types of companies.

[3] QUOTED BY MOCHTARI, H « COPORATE GOVERNANCE, DIVERGENCES OF INTERESTS AND AGENCY RELATIONS » 2004, P.4.

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In the present section we will be interested in the characteristics of the agricultural cooperative companies; then, the co-operative: a node of contracts specific; finally, fascinating parts (stakeholders) in the agricultural co-operatives.

a) Characteristics of the co-operative agricultural companies

The agricultural cooperative company shows the following characteristics, which make it possible besides to define it and distinguish it from other shapes of co-operatives:

- It is a "professional body farmers to which those transfer the load from their job satisfaction".
- It is a company with variable capital, which enables him to increase or write-off its capital on simple resolution of the Board of Directors, without joining together an extraordinary general meeting of the associates, as it is the case in the companies with fixed assets;
- It is a partnership, since the consideration of the personality of the associates is a major element. Indeed, it is the consideration which the associates have one for the other which is the determining cause of the creation of the company;
- The law indicates that it is about a juridical specific company. Thus the law of July 27, 1972 precise: the agricultural cooperative companies and their unions form a special category of companies, distinct from the civil companies and commercial companies. They have the legal entity and the full capacity." What confers on this category of company a specific right, an autonomous statute, merging neither with the civil companies, neither with the commercial companies, nor finally with associations.

b) The co-operative: specific nexus of contracts

From an economic point of view, the contract " is an agreement by which two parts begin on their behaviors reciprocal. It is about a bilateral device of coordination."(Brousseau E and Glachant J-M., 2000)[4] the co-operative constitutes a typical example of crossroads of contracts or node of contracts. The co-operatives, perceived by the company law like special, are it at least on two levels. Initially because this grouping "expresses a community of interests between the associates which does not have its equivalent in the traditional companies."

Then, because the creation of the company gives rise to contracts which strongly bind the associates to the co-operative, which results in double quality (associate and co-operator, i.e. taking part in the activity of the company).

Thus, "the constitution of a company is not an end in itself, but an essential tool which frames the contractual relations between a company and its users" (Hérail, 2000). The importance of these relations makes that the operation of the co-operative company requires not only the existence of necessary the affection sociopaths, but also of a affection corporatist (Hérail, 2000) which goes beyond the will to work jointly but means community of interest of the co-operators.

Moreover, the methods of distribution of the surpluses by the mechanism of the rebates whose the members and the equal distribution profit from the capacity depend on the "volume of contractual relations". In other words, they are the economic operations carried out by the co-operator and the company of which he is member which will be used as a basis for calculation of the advantages to grant to the latter. What constitutes a major difference with the traditional private companies.

c) Fascinating parts (stakeholders) in the agricultural co-operatives

Taking into account the reforms as regards right of the co-operatives and especially of the agricultural cooperatives, it is necessary to distinguish several fascinating parts, of which it is difficult to identify in a precise way the interests. Will be considered: associates, administrators, the president, the general manager, employees, co-operative unions.

- *Associates*

Taking into account the legal modifications, the associates can be co-operators (country) or no co-operators. In the first case their activity presents a complementarily with that of the co-operative. Indeed, the activity of the latter can be upstream or downstream from that of the peasant's members. In the first case it is about co-operative of provisioning, the CUMA (co-operative of uses of the farm equipment jointly) or of the CEIA (co-operative of breeding and artificial insemination).

The second case one finds the co-operatives of storage, transformation and marketing. The associate's co-operators bring not only one share of the capital, but are at the origin of part of the activity of the co-operative as suppliers, customers or users (in the case of the CUMA).

- *Administrators*

The administrator is elected by the general meeting of associated and for this reason, represents them for the management and the control of the co-operative. In theory, it "ensures the reality of the capacity of the farmer ".

It takes part, within the framework of the board of directors, the development of the strategy of the company and ensures the effective control of the management of the co-operative. Guarantor of the

[4] QUOTED OPTION.

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finality of the potentiality of the company, it constitutes a relay of information between the Board of directors and the whole of the members.

It is advisable to specify that when there are associates not co-operators, certain administrators can be no farmers, which limits their role of intermediary, because very far away from realities of the country world.

- *The president*

The president, a person resulting from the country world is in theory somebody who has a sufficient charisma to federate the wills. He is mobilizing at the same time members and administrators and a incarnation of the co-operative project.

- *General manager*

The general manager holder of competences in management, it works in harmony with the president, in order to carry out the mobilization of the resources (material and human) for the realization of the definite strategy.

- *Employees*

They are related to the co-operative by a contract of employment. So they complete work in accordance with the directives of the head of company. In fact agents of execution have the effect of being in contact with the users, i.e. with the associate's co-operators. What makes it possible to advance that the co-operators and the employees are executants (one more exactly of the Co-executants).

- *Co-operative union*
- *It happens that several co-operatives gather in a union of co-operatives. What can be explained by the following reasons[5]:*

– To face the economic competition by the costs, the regrouping of several co-operatives in union enables them to reach the minimal size, below which, they cannot be maintained on the market;
– The regrouping also allows the co-operatives, and thus to the co-operators, to reinforce their capacity of negotiation and to enter the very competing European market. What a co-operative with it alone is unable to make.

III. Conflicts of Interests and Government of Cooperatives Agricultural

The need for setting up a system of government of company is due to the divergences of interests between the various parts and, in particular the owners and the leaders. Such is the case when the firm is directed by paid managers (or holders of a weak share of its capital).

a) Conflicts between the stakeholders

However, this collective management can run up against the conflicts on the objectives of the co-operative company, especially if one considers the diversity of the fascinating parts. In the event of consensus between the whole of the members on the aims in view, the operation of the company does not pose a problem. In the contrary case, one attends conflicts of interest between the members who can give rise to behaviors prejudicial for the co-operative. Among these conflicts, one can quote:

– The conflicts which occur between co-operators, especially when they are organized in coalitions definitely differentiated by their interests and their references;
– The conflicts which are born between the administrators and the other members.For example, the administrator can seek the maximization of the price of production as a supplier instead of aiming " the optimization of the economic effectiveness of the production as a manager of this one."
– The conflicts which appear between the president and the administrators;
– Conflicts between paid and adherent;
– Conflicts between the co-operative or only some of its members (united) and the co-operative union.

b) The theory of the agency and conflicts between stakeholders

i. *Identification of the relations agency*

Some of the contractual relations in the co-operative can be qualified relations of agencies. In which a part (one or more people) has recourse to the services of another part to achieve decisions on its behalf. It results from it from the conflicts related to the divergence of interests between the fascinating parts of the agricultural cooperative. These conflicts can be qualified conflicts of agency. " the conflicts of agency are of post-contractual nature and find their origin in the asymmetry of information and impossibility of writing complete contracts because of limited rationality and uncertainty"[6].

These conflicts lead the parts to anticipate the risks related to the relations of agency. What results in costs known as of agency, which rise from the measurements taken by the contracting ones to install mechanisms enabling them to be injured (cost of bargaining, cost of monitoring, etc). Concerning the agricultural cooperatives, the relations, between

[5] Deshayes G, 1990., quoted by Mochtari, H " corporate governance, divergences of interests and agency relations ".2004,P4.

[6] Charreaux G (1999), " positive Theory of the agency ", new theories to manage the company of XXIe century, in G Koenig (coordination) page 79.

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fascinating parts, quoted previously constitute relations of agency.

They are possible relations between fascinating parts, but which do not imply directly or indirectly the co-operative. For example, relations between customers of the co-operative and some associated for their own interest (these customers can be at the same time customers of associates, on a purely personal basis), relations between paid and trade unions of farm laborers, etc. These relations which do not rise of the co-operative field correspond to the grayed cells.

c) *Relations of agency concerned with the node of contracts*

It is contractual relations in which the co-operative is implied directly: relations of the type RA or ATR Indeed these two categories of relations are concluded in the framework from the co-operative between the latter (or its leader representatives and / or its bodies) and the fascinating parts mentioned. It is thus relations between associates, of the relations of the co-operative with its administrators, his president, his director, etc. However, although concerning the node of contracts, these relations do not constitute all of the relations of agency.

The relations of the type ATR are relations of co-operation which, in the event of conflict, can be sliced by the law or the statutes without too much difficulty. In other words, the margin of freedom of interpretation by the parts is very weak or for which the ' moral' risk is weak. As an example, the work of executants is more easily controllable and, in the event of litigation, the recourse to the jurisdictions makes it possible to take a decision. In addition, the way in which achieves his work is more or less standardized and generally conforms to professional uses. It can be analyzed like a convention, i.e. "an informational screen[7]" which exempts the individuals to wonder each time about the behavior of the other individuals.

Remain the noted relations RA which correspond to situations where a part - the agent - must manage for a part - the main thing. Thus, the relation between associated and administrators are a relation of agency, in the sense that the administrators are supposed to represent the members of the co-operative and to work in their interest. In the same way, the relation between the president and the associates or that between associated and director. But, a fine analysis of these relations of agency shows that they are not located all at the same level. Thus some are the fact of fascinating parts whose interests cannot merge with those of other parts[8] on the other hand, certain groups of stakeholders have several memberships, which illustrate the examples, of relations, hereafter:

- The relation (A) - (D): the interests of associated coincide only fortuitously with those of the general manager;
- The relation (B) - (D): the interests of the administrators coincide only fortuitously with those of the general manager;
- The relation (A) - (B): the interests of the associates coincide completely or partially with those of the administrators;
- The relation (A) - (C): the interests of the associates coincide completely or partially with those of the president;

When the interests are divergent, the relation will be noted X # Y, contrary in the event of convergence, it will be noted X≈Y. the various relations of agencies can be written these two manners:

- A≈ B;
- A≈C;
- B≈C: this relation rises from the two preceding ones since the president is a associate who is member of the board of directors.
- A # D;
- B # D;
- C # F;
- D # F.

In theory, if the management of the co-operative is democratic, the conflicts of agency in the first part are limited, because there is an identity of the interests between the fascinating parts (A≈B, A≈ C, B≈C). In addition, the deliberative bodies (general meeting of associated and board of directors) are able to regulate these conflicts. On the other hand, for the other conflicts of agency, the mechanisms of operation of the co-operative do not make it possible to bring an identity of the interests of the partners. From where need for resorting to mechanisms of government to frame the behaviors of the various fascinating parts. Indeed, such mechanisms can constitute a means to prevent that the co-operative does not escape its member's co-operators.

IV. The Resolution of the Conflicts in Agricultural Cooperative

The present section we will be interested in the resolution of the conflicts between associated in the co-operative agricultural; and thereafter, with the resolution of the conflicts and the mechanisms of control.

a) *The resolution of the conflicts between associated in the agricultural cooperative*

Several means make it possible the co-operative to solve the conflicts which can exist in the event of divergence of interests: legal and professional environment, the agricaltural policy and democratic operation

[7] Gomez P-Y, 1996 « The Corporate Government » Intereditions .
[8] But Does Not Exclude The Possibility Of Identity The Interests.

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i. *Legal and professional environment*

By making co-operative a specific company, the law frames their creation, their activity and their organization. So the conflicts being able to emerge in their centre seem, in theory, limited enough.

Thus the rule of capitalism reduces the conflicts related to the division of the benefit between the associate's co-operators. What means that "the objective of the co-operatives is not to make bear fruit the capital of the members, but n the other hand to ensure the latter a service of an obligation of activity, correlatively with the idea of exclusion of any finality of total or personal enrichment." For example, a associate co-operator holding a social share can profit from a rebate, according to his co-operative activity, more significant than that of a associate co-operator holding ten social shares. In the same way the professional environment plays a significant role to limit the conflicts. Indeed, the associates' co-operators set up a group more homogeneous than any group of shareholders of a limited company. This homogeneity covers several dimensions:

- The peasant's co-operators belong the same agricultural activity (for example, cereal, to stockbreeders of bovines...); ·
- Then, they are localized geographically, which generally corresponds to the same "country culture" and to the same vision of their professional identity;
- A community of professional destiny which is translated by real solidarity and behaviors, at the local level, rather near. For example, the acceptance of an innovation or its refusal by a group illustrates this phenomenon well.

ii. *The agricultural policy*

The agricultural policy played a role determining in the French agricultural revolution, especially with the installation of the P.A.C[9]. The latter had as a consequence a standardization of husbandries and imposed to the peasants rules of operation whose adoption conditions the benefit of subsidies. These rules relate at the same time to the volume and the quality of the products, the use of fertilizers, the food of the animals, etc.

Measurements as regards breeding, following the crisis of the " insane cow ", are a perfect example of regulation out of agricultural matter (and medical). Thus, the policy of the authorities, national and European, strongly delimits the framework economic and financial of the agricultural activity, therefore of the activity of the agricultural cooperatives.

iii. *The democratic operation of the agricultural co-operatives*

Berle and In theory, democratic operation, a fundamental idea in the co-operative doctrines constitutes a means which reduces the conflicts in the co-operative company. Initially, the fact that the associate's co-operators, the administrators and the president share the same ethical values constitutes a significant element, which without removing opportunism contributes to reduce it.

Indeed, in a homogeneous group founded on a common ethics, the deviating behaviors are rather weak, because the risk of discredit is great. In addition, the statute of associate authorizes any member to have a right of permanent glance on management. In the same way, its right to information is permanent, which authorizes the criticism of the actions carried out by the company. Combined with the effective role of the assembly in the life of the co-operative, these elements show well that, in theory, democratic operation is a means to reduce the conflicts of interest between associated in this type of company.

b) The resolution of the conflicts and mechanisms of control

They are here two types of conflicts:

- Conflicts between owners (including the administrators and the president) and their " agent " which is the director;
- Conflicts between the director and the other partners.

i. *Conflicts between the owners and the director*

Insofar as the administrators and the president are in situations close to that of the others associated co-operators, the study will be limited to the conflicts between the director and the associates.

The complexity of the co-operative business management requires the recourse to managers. In the agricultural cooperatives, they occupy of the posts of frameworks, but especially of director. The director is in theory a collaborator of the president of the co-operative.

However, in practice, because of its competences, it has a true decision-making power. What can allow him, because of asymmetry of information, to be in position of force, at the same time vis-à-vis the president, with the administrators and the associates.

In such a case, it can become the true holder of the capacity and thus compared to the officers of the company by actions. In the operation of these companies, the real capacity of decision is held by the leaders, holders of information and competences.

However, the behavior of these leaders is limited by the disciplinary mechanisms which the financial markets and the "market of the leaders constitute". If the financial markets do not have any effect on the director of an agricultural cooperative, such is not the case of the market of the leaders (it is about the labor market for the recruitment of the leaders). But

[9] P.A.C.: Common Agricultural Policy

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the leader can deploy a strategy of rooting, which "supports that the leaders who have a solid majority of the capital, escape any control and can thus manage from a contrary point of view with the maximization of the value"[10] .

The strategies of rooting of the leaders aim at returning the cost of exit of the dissuasive leader for the associates, which encourages them to maintain it in function.

But, in the case of a co-operative, the behaviors of rooting are certainly possible, but difficult to implement. Initially because, in a co-operative, the associates are co-operators and thus left fascinating the activity of the company, which enables them to exert a power of direct monitoring on the leader. In addition, directing it cannot replace the contractor, because this role is allocated to the members of the co-operative.

Thus, its room for maneuver as regards investment in credits which could be beneficial for him with the detriment of the associates is extremely weak. With this addition the knowledge which the members have likes competence as regards fixing of remunerations, promotion, etc.

Lastly, the co-operative can always set up a system of profit-sharing at the results which could direct the action of the director (and others paid) towards the achievement of the objectives of the co-operators. Thus, various mechanisms contribute to control the behavior of the director of a co-operative and to reduce its discretionary capacity.

ii. *Conflicts between the director and others partners*

The other partners can be suppliers, customers, lenders, etc. Only the relations with the lenders constitute relations of agency. It should be stressed that the co-operatives have recourse, in a more frequent way at organizations of co-operative credit. What means, that they are organizations having the same ethical references as the agricultural cooperatives.

These organizations often have relations with the president of the co-operative, which means indirectly with the member's co-operators, which return the role of the less eminent director.

In addition, even if the true decision maker is the director, the contractual devices on the matter, the practices of the organizations of co-operative credit and the values of reference of the co-operative world reduce the costs of agency. Thus, the agricultural cooperatives appear as organizations whose form of government contributes to reduce the conflicts of agency and thus the costs of agency.

[10] Charreaux, G(1991) « Property Structure , Agency Relation, And Financial Parformance »Economic Review, Flight 42, 1991.

V. Conclusions

The question of the firms' governance does not relate to only the companies dimensioned out of Stock Exchange or the multinational firms, but all the organizations in which exists a separation between managers and owners. The agricultural cooperatives constitute, for this reason, a significant example of these organizations. Indeed, in these companies, one notes that the members (peasants), even if they intervene in the management of the co-operative are not always the true decision makers.

Our objective, primarily treat the divergences of interests in the agricultural cooperatives by taking account of the co-operative mechanisms contributing to reduce where to solve these conflicts. Indeed, the agency theory, through the model "shareholder" is useful to describe the contractual relations between all the speakers and to explain the government of the agricultural cooperatives. However, the agricultural cooperative is a "Contracting nexus" which is the place of crossing of several fascinating parts, whose interests can diverge.

Thereafter, the economic theories of the contract contribute to characterize the relations between these fascinating parts and to propose an interpretation of it.

The conflicts between the associated owners and leaders are limited in the agricultural cooperative: the conflicts between associated co-operators and administrators (including the president) are of a weak range because of the low divergence of interest between the parts (economic identity of situation, even professional culture and homogeneous group).

Then, the conflicts between owners and director (or top executives), the strategies of rooting of the leaders are difficult to implement, for several reasons. Initially, the participation, with the daily newspaper, of associated the activity and the operation of the co-operative, which enables them to supervise the business management.

The activity of monitoring of the administrators and the president, who are also decision makers. Lastly, the director incarne not the function of contractor which returns to associated and with their elected officials.

Lastly, as for the conflicts of interest with the lenders, the latter often belong to the co-operative movement (co-operative banks in particular) and finalize the contracts with the president of the co-operative. In addition, the practices of these organizations and the values shared contribute to reduce the costs of agency.

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