

HOW CAN COOPERATIVES REDUCE DEMOCRATIC COSTS WITHOUT INCURRING EXCESSIVE AGENCY COSTS?

by

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Abstract

Agricultural cooperatives are often assumed to be less competitive compared to investor-owned firms due to its higher decision-making costs. We have empirically investigated how cooperatives can minimize both democratic and agency costs given differing levels of member participation. We distinguish between horizontal, vertical, and diagonal conflicts of interests, as well as between both direct and opportunity costs. We found that direct agency cost is a smaller concern for cooperatives compared to the risk of exposure to high opportunity agency costs. We also found that the relation between member participation in the board of directors and democratic costs is more complex than often assumed. Finally, we show the difficulties cooperatives face in minimizing both democratic and agency costs. With a lower level of member participation, direct democratic costs may be reduced, but opportunity agency costs may rise as fewer members monitor management. Therefore, cooperatives should either increase member participation or use additional agency mechanisms (such as audits) to prevent agency problems.

Keywords: agricultural cooperatives, cooperative governance, democratic costs, agency costs