O Controle das Cooperativas pelos Membros: uma Revisão de Literatura[1]

Decoding cooperative democracy: a literature review of member control

Davi R. de Moura Costa	Elisangela Domingues Vaz	Flávia Zancan	Matheus Jones Zago	Ricardo Theodoro
FEARP/USP	Unicamp – Campus Limeira	FEARP/USP	University of Würzburg, Germany	FEARP/USP
drmouracosta@usp.br	elisangelavazagro@gmail.com	flaviazancan@usp.br	mjzago@gmail.com	rtheodoro@usp.br

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Resumo

Uma parte significativa dos pesquisadores que tornam as cooperativas seu objeto de pesquisa assume que essas organizações devem seguir os princípios da doutrina cooperativista. Em síntese, é advogado que essas organizações devem ser controladas de forma democrática pelos cooperados. Uma vez no controle, podem desenhar as diretrizes estratégicas da cooperativa. Contudo, a medida que se tornam complexas e de propriedade dispersa é comum verificar um processo de delegação das decisões de gestão e parte das decisões de controle para indivíduos especializados nessas decisões. Embora estudos venham lidando com a temática governança de cooperativas, os diversos tipos não permitem uma consolidação do conhecimento quanto a realidade da governança nas organizações brasileiras. Por exemplo, uma vez que o controle nessas organizações segue o princípio de um homem, um voto, quais alterações na estrutura são adotadas para garantir que as escolhas dos membros sejam consideradas no processo decisórios da cooperativa? Dentro desse contexto, o objetivo da revisão sistemática de literatura (RSL) conduzida foi identificar como a literatura respondeu parte dessa questão. O período considerado foi de 1990 a 2020 e deu enfoque nos artigos publicados em revistas disponíveis nas plataformas *Web of Science* e *Scopus*, publicados em língua inglesa e portuguesa. Dentre os resultados destaca-se que há uma temporalidade nos trabalhos relacionados ao tema. Adicionalmente, nota-se que os artigos com maior número de citação não são aqueles publicados nas principais revistas acadêmicas da área de economia ou administração. As revistas especializadas atraem mais esses tipos de trabalho. Nota-se, que as cooperativas estão adaptando suas estruturas, mas que isso não está plenamente respaldado nos seus mecanismos formais de governança. Uma estratégia comum que tem sido adotada pelas cooperativas é a eleição de delegados regionais e pré-assembleias. Entretanto, esses delegados ou esferas decisórias não têm seus direitos de controle delineados ou definidos na estrutura.

Palavras-chave: Cooperativa Agropecuária; Cooperativa de Crédito; Revisão Sistemática

Abstract

A significant portion of researchers who focus on cooperatives as their object of study assume that these organizations should follow the principles of cooperative doctrine. In summary, it is advocated that these organizations must be democratically controlled by their members. Once in control, members can design the cooperative's strategic guidelines. However, as cooperatives become more complex and ownership becomes more dispersed, it is common to observe a process of delegating management decisions and part of the control decisions to individuals specialized in these areas. Although studies have been addressing the topic of cooperative governance, the diversity of cooperative types hinders the consolidation of knowledge regarding the governance reality in Brazilian organizations. For example, since control in these organizations follows the "one member, one vote" principle, what structural changes are adopted to ensure that members' choices are considered in the cooperative's decision-making process? In this context, the objective of the conducted Systematic Literature Review (SLR) was to identify how the literature has responded to part of this question. The review considered the period from 1990 to 2020 and focused on articles published in journals indexed in the Web of Science and Scopus platforms, written in English and Portuguese. Among the results, it is noteworthy that there is a timeline in the works related to the topic. Additionally, it is observed that the most cited articles are not those published in leading academic journals in the fields of economics or management. Rather, specialized journals tend to attract more of these studies. It is also noted that cooperatives are adapting their structures, but this is not yet fully supported by their formal governance mechanisms. A common strategy adopted by cooperatives is the election of regional delegates and the holding of pre-assemblies. However, these delegates or decision-making bodies do not have clearly defined control rights or a delineated role within the structure.

***Key words**: Agricultural Cooperative, Credit Union, Sistematic Review*

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1. Expanded Abstract

According to Oliveira & Oliveira (2021), between 2001 and 2017, the number of branch offices of Brazilian cooperatives grew up by 5% per year. Similarly, the number of employees increased by 16% annually. The majority of cooperatives in February 2020 were headquartered in the Southeast (35%) and South (21%). In the same year, Costa (2023) shows that, based on his intentional sample, which comprises the fifty largest agricultural cooperatives, the average organization had 53 branch offices, located an average of 76 km from headquarters, and was engaged in 46 different economic activities. At the same time, the public policy to support these organizations has been reduced. The data suggests that Brazilian cooperatives, particularly those in the agricultural sector and credit unions operating in financial markets, have been compelled to expand their economic activities and establish branches in multiple locations to remain competitive. They appear to be evolving into more complex organizations with increasingly dispersed ownership. It seems that they are adopting strategies similar to those of their market competitors in order to address the challenges arising from these characteristics. However, unlike their market rivals, as mentioned above, its ownership rights are redeemable instead of marketable. This limits the effectiveness of external monitoring mechanisms and increases the cost for members to exit the cooperative if they disagree with strategic, operational, or cost-sharing decisions made by management (COSTA; CHADDAD; AZEVEDO, 2013; CHADDAD; COOK, 2004; BRASIL, 1971).

Along with the increasing size and complexity of cooperatives, there remains a debate in the literature about whether public policy incentives effectively enhance their capacity to generate social and economic gains, or if they ultimately become a mechanism that shields management from competition, leading to a loss of organizational efficiency. In a worst-case scenario, these incentives may even be appropriated by inefficient management, becoming a social cost (PIGOU, 1950; LEIBENSTEIN, 1966; GRAY; BUTLER, 1994; HENDRIKSE; VEERMAN, 2001).

Consequently, controlling management has become a critical governance issue. In other words, ensuring that members can effectively oversee managers and the board of directors has become a key challenge in the current landscape (ANDERSON, 1987; GRAY; BUTLER, 1994; HENDRIKSE; VEERMAN, 2001). This topic was a very important research topic during 1970s and 1980s years in United States and Europe. Studies conducted by authors such as Warner & Hilander (1964), Kravitz (1974), Craig (1975), Lasley (1981), Boynton & Elitzak (1982), Ollila (1984), Schomisch (1985), Anderson (1987), and Gray & Butler (1994) explore the cooperative increasing and the evolving dynamics of member control.

In this paper we conduct a systematic literature review to identify studies that examine the governance mechanisms or structural changes adopted by cooperatives to uphold the principle of democratic owner control. In other words, we focus on changes in governance structure that enable members to influence or participate of the the cooperative's decision-making process, particularly those that shape its future. Several authors have described the differences between cooperative organizations and investor-owned corporations. A common characteristic in their descriptions is that the owners of these contractual arrangements are simultaneously users, beneficiaries, and controllers of the organization. It is assumed that they follow the principle of one member, one vote, implying the adoption of a democratic governance structure aimed at serving the collective interests of the membership. Therefore, its governance mechanisms must ensure that decisions affecting the organization's future remain in the hands of its members. This makes member control the cornerstone of cooperative governance.

Member control, based on Hirschman (1970), Shaffer (1978), Boynton & Elitzak (1982), Hendrikse (1998) and Novkovic & McMahon (2023), refers to the ability of members to set the organization's objectives and influence the strategies used to achieve them. This control can be active or passive. The former occurs when members use a "voice" mechanism - that is, by voting on policy issues, such as approving bylaw modifications, changes in capital structure, electing and defining the composition of the board of directors, mergers, and other critical decisions, as well as by serving on a committee or occupying an office. The latter occurs when the members prefer an exit mechanism or decide whether to engage with the cooperatives' structure and services.

The extent to which cooperatives grow and become more complex, researchers — predominantly those conducting studies between the 1960s and the mid-1980s — pointed out a shift in control from the hands of members to the board of directors and the managers they hired. This occurs because a direct style of democracy becomes impossible when all members unable to attend the general meeting at the same place and time, and even if they could, organizing and articulating the discussion would still be unfeasible (WARNER; HILANDER, 1964; BOYNTON; ELITZAK, 1982; OLLILA, 1984; STAATZ, 1987). In addition, as membership grows, the diversity among members increases, and individual interest in participating diminishes. Even if all members could attend, the challenges of organizing and articulating the discussion would still remain, which undermines the effectiveness of the 'one member, one vote' principle. Consequently, the system may need to be enhanced to ensure better decision-making for the membership.

According to Kravitz (1974), cooperatives may become dominated by management, which is hired or elected to oversee growth. The author identifies two main reasons for this: first, managers are often more concerned with maximizing business profits than promoting the economic well-being of the members; second, even when board members are elected, the election process can be influenced by personal relationships, such as friendship or prestige, rather than the cooperative's economic interests. Together, these factors concentrate power in management and reduce member participation, ultimately detaching the cooperative from its founding democratic principles.

This situation in cooperatives, where control shifts from members to management, resembles a broader governance issue described in the literature: the separation of ownership and control. This concept was first introduced by the seminal work of Berle & Means (1932) and later expanded upon by Fama & Jensen (1983). While Berle & Means (1932) pointed out that owners in large corporations no longer directly participate in decision-making, the latter authors argue that complex organizations with dispersed ownership must split the decision-making into decision control and decision management. In this framework, owners retain decision control, while managers handle decision management to improve efficiency and address problems arising from the absence of owners in direct control. This perspective helps explain why cooperatives, as they scale, experience a governance shift similar to that seen in investor-owned firms.

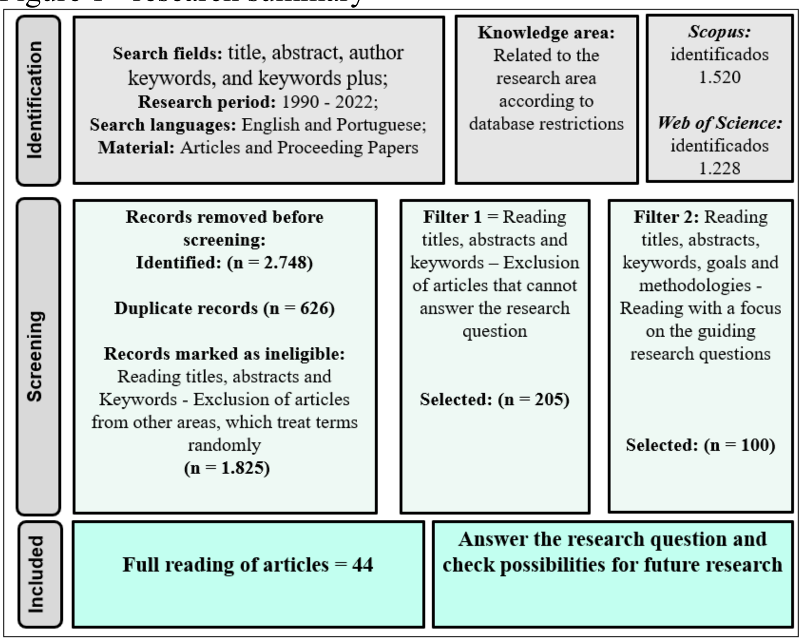
According to Gray (1986), the main challenge for large cooperatives is balancing the advantages of economies of scale with mechanisms that help preserve and enhance members' preferences in governance and managerial decisions. In this context, internal organizational arrangements are necessary. To address this, Costa, Chaddad & Azevedo (2013) argue that these arrangements are crucial for promoting specialization through the separation of ownership and control. Specifically, they must ensure that owners focus on decision control while managers are responsible for decision management. To accomplish this specialization, owners should delegate their formal control rights or authority to the board of directors, and decision control and decision management must be allocated to the board and the managers, respectively[2].

[2] Conversely, if cooperatives are small, the decision-making process should not pose a problem (GRAY, 1986;

Therefore, in line with Deng & Hendrikse (2015), the detaching members from decision management suggests that the general members' meeting or general assemblies, the board of directors, specialized committees, and managers all play essential roles in the governance structure of large cooperatives. Moreover, it highlights the importance of non-price mechanisms in governance, such as nominating members to the board, the voting process, and communication methods. These mechanisms are significant because they can influence the allocation of costs and benefits among members, management, and the company (STAATZ, 1984; ANDERSON, 1987). In other words, these structures and mechanisms are key components to understanding the cooperatives' member control in cooperative organizations. For example, factors such as whether members delegate authority to a small group of owners, the presence of full-time directors, the existence of nominating, finance, or audit committees, the types of voting rule used, whether they maintain a one member, one vote system or switch to one based on geographic or economic activity, members' investment, and the intensity of their priorities within the cooperative, are all important.

The literature review represents a fundamental step in building a significant contribution to the advancement of scientific knowledge. Its main goal is to offer a comprehensive overview of the topic under investigation, enabling the identification of theoretical gaps and the delimitation of key research questions (STROZZI; COLICCHIA, 2012). In this context, the Systematic Literature Review (SLR) was adopted the primary data collection method due to its effectiveness in evaluating the relevance of existing studies in relation to the research objectives. Furthermore, the SLR is recognized for enhancing methodological rigor, validating findings, and minimizing research bias, as highlighted by Tranfield et al. (2003). The review was conducted following the three macro-stages proposed by Tranfield et al. (2003, 2004) and adhered to the PRISMA statement flow diagram, as recommended by Moher et al. (2009). The complete review process is illustrated in Figure 1, which provides a structured overview of the adopted research protocol and its summary.

Figure 1 - research summary



In the identification phase, 1,520 articles were retrieved from the Scopus database and 1,228 from the Web of Science. A total of 626 duplicates—i.e., articles indexed in both databases—were removed. In the screening phase, after analyzing the titles, abstracts, and

COSTA; CHADDAD; AZEVEDO, 2013)

keywords, 1,825 articles remained. This means 297 articles were excluded during the initial screening for not being related to the defined research areas.

Since our main objective is to analyze how members control their cooperative organizations, six selection criteria were established based on the theoretical framework. Papers needed to address at least one of the following topics to be considered: 1. Organizational architecture of cooperatives; 2. Different governance structures or models; 3. The process by which members elect representatives to the board of directors (BoD); 4. Implications and outcomes of CEO duality; 5. Distribution of decision-making authority among the general assembly (GA), board of directors, and the CEO; 6. Mechanisms through which members monitor, incentivize, and exert control over the BoD and CEO. These topics guided the subsequent stages of article selection. Papers that did not include any of these elements were excluded. In summary, 44 articles met the criteria and were included in the final sample, contributing to the objectives of this study.

Our results highlight significant findings when considering Brazil's institutional context and the distinct characteristics of agricultural cooperatives and credit unions. In Brazil, few studies have examined the intersection between cooperative growth and member control mechanisms, and there is a lack of consistent research on the topic. Evidently, these issues are deeply connected to the specific realities of each country. In general, cooperatives appear to be adapting their structures; however, such changes are not always accompanied by corresponding improvements in formal governance mechanisms. A common strategy involves the election of regional delegates and the organization of pre-assemblies. Nonetheless, these delegates or decision-making bodies often lack clearly defined control rights or a formalized role within the cooperative's governance structure.

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