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Conceptual framework on the *continuum* of change in governance structures from the perspective of member control and the life cycle of agricultural cooperatives

Framework conceitual sobre o *continuum* de mudanças nas estruturas de governança, sob a perspectiva do controle dos associados e do ciclo de vida das cooperativas agrícolas

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ABSTRAT

Given the models of traditional, extended traditional, management, and corporate governance structures, this theoretical essay aims to present a conceptual framework that integrates the member control and life cycle perspectives of agricultural cooperative organizations. Starting from the continuum of changes, it is proposed that in phase 1 member control is total and is combined with the economic justification of the life cycle. In phase 2 the control is of quasi-integration and is combined with the organizational design stage of the life cycle. In phase 3 there is the separation of membership control and the life cycle goes through the stages of growth, glory, and heterogeneity. In phase 4 the control of the associates is delegated and combined with the stages of recognition and introspection. In phase 5, member control remains delegated and the life cycle reaches the stage of choice, eventually reaching the demutualization of the cooperative (phase 6).

Keywords: Governance; Conceptual framework; Cooperatives.

RESUMO

Tendo em vista os modelos de estruturas de governança tradicional, tradicional estendido, gestão e corporativo, esse ensaio teórico tem como objetivo apresentar um framework conceitual que integra as perspectivas de controle dos associados e do ciclo de vida das organizações cooperativas agrícolas. Partindo do continuum de mudanças na estrutura de governança formal e relacional de cooperativas agrícolas, propõe se que, na fase 1 o controle dos associados é total e se combina com a justificativa econômica do ciclo de vida. Na fase 2 o controle é de quase-integração e se combina com a etapa do desenho organizacional do ciclo de vida. Na fase 3 ocorre a separação no controle dos associados e o ciclo de vida perpassa pelos estágios de crescimento, glória e heterogeneidade. Na fase 4 o controle dos associados é delegado e se combina com os estágios de reconhecimento e introspecção. Na fase, o controle dos associados permanece delegado e o ciclo de vida chega ao estágio de escolha, podendo, por fim, alcançar a desmutualização da cooperativa (fase 6).

Palavras-chave: Governança; Estrutura conceitual; Cooperativas.

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Introduction

The world's poor depend directly or indirectly on agriculture for their livelihoods, most of them being smallholders. While improving the production capacity of these smallholders is important, facilitating their access to markets for inputs and outputs is a key element in enabling rural development strategies and reducing poverty levels. Specifically, small producers face many constraints that prevent them from taking advantage of market opportunities, as living in remote areas with poor infrastructure, they face high transaction costs. In addition, small producers with few assets to offer as collateral have little access to credit and technical assistance services, which are preconditions to upgrading their production systems (Dumitru, Micu, & Sterie, 2023; Jayne, Mather, & Mghenyi, 2010; Key, Sadoulet, & Janvry, 2000).

A large part of the European Union's (EU) agricultural production comes from producers who are members of cooperatives. The average market share of all agricultural products originated through cooperatives amounts to 40%, with significant differences between sectors and countries. In some sectors, cooperatives have market shares above 50% as is the case in Scandinavia, Ireland, the Netherlands, France, and Austria in the dairy, fruit, horticulture, wine, and olive sectors (Bijman, Hanisch, & van der Sangen, 2014). Arla Foods, a Swedish-Danish dairy cooperative, is one of the world's largest dairy processors. The Sodra forestry cooperative is the world's largest exporter of pulp. Lantmannen, which is active in the industry and marketing of grain and agricultural supplies, has units in 19 countries, with brands that are often market leaders (Österberg & Nilsson, 2009).

In Japan, agricultural cooperatives bring together around 90% of all producers, while in Canada and Norway, four out of ten farmers are cooperative members. In New Zealand, cooperatives account for 95% of the dairy market and 20% of the GDP. In Brazil, according to data from the last Agricultural Census, conducted in 2017, cooperatives account for 41% of the Gross Value of Production (GVP) agribusiness, coordinating the main actors of the primary sector of the economy and facilitating producers' access routes to markets (Neves, Castro, & Freitas, 2019). According to Hansmann (2000, p. 387), “overall and surprisingly, the overall share of economic activity represented by cooperatives is higher in advanced economies than in less developed economies”.

Cooperativism is a means to reduce transaction costs. Roy and Thorat (2008) showed that in India grape marketing cooperatives reduced transaction costs and contributed to increasing the bargaining power of small producers in relation to foreign buyers. In Ethiopia, smallholder cooperatives operating in the dairy sector achieved higher profit margins in the marketing of their products (Holloway, Nicholson, Delgado, Staal, & Ehui, 2000). Costa Rican coffee cooperatives have facilitated small producers' participation in specialized markets with higher prices for their products (Wollni & Zeller, 2007). Green bean producers in Kenya, Ethiopia, and Zambia, organized in cooperatives, have been able to enter markets in Europe (Okello, Narrod, & Roy, 2007)

The search for competitiveness by supply chains is often associated with quality and food safety standards related to processes and products. These factors may increase external transaction costs, and the observed trend toward vertical supply chain integration may further exacerbate asymmetries in the power relationship between small producers and their buyers. In such situations, cooperativism is likely to improve market access for small producers (Rao & Qaim, 2011; Wiggins, Kirsten, & Llambí, 2010).

In order to reduce transaction costs, it is necessary for agricultural cooperatives to implement governance that meets, to a good extent, the demands of their key stakeholders (internal and external). Over the last decade, the leaders of agricultural cooperatives have increasingly questioned the adequacy of their corporate governance structure. This questioning is based on four aspects, namely (i) a trend among organizations to strengthen their accountability and transparency towards their shareholders and interested parties (Cornforth, 2004); (ii) more competitive agri-food market as a result of reduced protectionism in developed and emerging countries (Kyriakopoulos, Meulenberg, & Nilsson, 2004); (iii) impact of growth strategies on the effectiveness of the Board of Directors' (BOD) control over managers' decisions (Bijman et al., 2014); (iv) change in formal structure to achieve necessary change in organizational culture (Lazzarini, Miller, & Zenger, 2004; Zenger, Lazzarini, & Poppo, 2000).

Such aspects reveal the ongoing tensions that exist between the cooperative economic and governance model and the market economy in which agricultural cooperatives are embedded (Ajates, 2020). Recent studies have examined governance challenges and perspectives (Bijman et al., 2014; Cook & Iliopoulos, 2016; Diakité, Royer, Rousselière, & Tamini, 2022; Iliopoulos, Värnik, Filippi, Võlli, & Laaneväli-Vinokurov, 2019) scholars and policy makers have ar gued that cooperatives, particularly agricultural cooperatives. Therefore, this theoretical essay contributes to the literature by presenting a conceptual framework that integrates the types of governance structures considering the member control and life cycle perspectives of cooperative organizations.

Given that this topic is still in its infancy when it comes to agricultural cooperatives (R. F. Silva, Souza, & Silva, 2015), the present study reports on recent changes that have occurred in the corporate governance structures of agricultural cooperatives in various regions of the world. In addition, this study responds to the call by Novkovic (2013) and Luo, Han, Jia and Dong (2020) co-operatives in the Western world have developed exponentially and played essential roles in improving agricultural sustainability. Much research has been carried out on this topic; however, to date, there is no systematic review of this body of the literature. To fill this gap, this paper is designed to identify the main research themes regarding agricultural co-operatives in western countries, and subsequently shed light on avenues for future research in this field. Based on a systematic literature review with bibliometric techniques including citation and co-citation analyses, this study identifies six predominant themes (social and environmental performance of co-operatives, governance structures of co-operatives, trust and commitment in co-operatives, comparisons between co-operatives and investor-owned firms (IOFs for more research on governance structures in the agricultural cooperative context.

This study significantly contributes to the field of Management as it addresses the importance of governance structures in agricultural cooperatives. Understanding and enhancing governance in these organizations is crucial in addressing the challenges faced by small, medium, and large-scale farmers and promoting sustainable development. By integrating governance structure types with member control and life cycle perspectives of cooperatives, this study provides a valuable conceptual framework to guide decision-making and the implementation of effective cooperative governance practices. Furthermore, by analyzing recent changes in cooperative governance structures across different regions of the world, this study contributes to current knowledge on best practices and emerging trends in this field. By addressing this literature gap and responding to the call for more research on governance in the context of agricultural cooperatives, this study offers valuable insights for academics, managers, and policymakers interested in promoting the success and sustainability of these organizations, which are crucial to the agricultural sector.

Cooperative Corporate Governance

Governance structure is conceptualized as an organizational design that incorporates systems of decision making, operational control, and incentives. According to Hansmann (2000), one way to define a governance structure is to distinguish between decision rights and revenue rights. Decision rights specify who can make decisions about the organization's strategies and policies. Revenue rights, on the other hand, define the benefits and costs resulting from the organization's activities. Cooperative governance is a complex and specific process that is essential to the success of cooperatives. By having strong governance, cooperatives can ensure that their strategies meet the needs of their members and that they are operating in a way that is sustainable and fair (Michaud & Audebrand, 2022).

In the context of cooperatives, formal governance should be structured to serve the interests of its members. In this sense, the following subsections present the perspective of member control, the continuum of changes in governance structures and the life cycle of agricultural cooperatives.

Associate Control Perspective

The members of a cooperative have their own agricultural business and evaluate the cooperative's strategies according to their own interests; however, the managers, being professionals, seek the cooperative's development, pursue personal career ambitions, and compare the cooperative's performance with other organizations operating in the same sector of activity Nonetheless, if the cooperative's services meet the common interests of the members, no member can legitimately complain that their interests are not being served (Iliopoulos & Valentinov, 2018). The Board of Directors (BOD) has the difficult and complex task of accommodating these two worlds (Bijman, Hendrikse, & van Oijen, 2013).

In a so-called 'traditional' governance structure, the cooperative's Board of Directors, democratically elected by and among members, is the main body that regulates the cooperative's activities and investments. In small cooperatives, the Board of Directors is also responsible for operational management. When the cooperative grows in scale and scope, professionals are hired to manage it and as a result, one observes, in this case, the division of work between decision control (ratification and monitoring) and decision management (initiation and monitoring). In addition, the costs of communication and engagement, necessary to maintain the trust of producers, increase with the size and complexity of the cooperative (Rolfe, Akbar, Rahman, & Rajapaksa, 2022). The BOD is responsible for decision control, while managers are required to be responsible for decision management (Bijman et al., 2013).

Some authors compare the governance structure of cooperatives with the governance structure of capital companies. This comparison is based on the principal-agent theory, whose origin is due to the separation between who owns and who controls the organization. The separation between ownership and control establishes an agency relationship between the principal (owner) and the agent (professional manager). The agency relationship is characterized by asymmetric information and potential conflicts of interest, which generally contribute to the emergence of adverse selection and moral hazard problems. The goal of a governance structure is to minimize these problems (Hendrikse & Veerman, 2008; Tirole, 2001).

Bijman et al. (2013) differentiate the agency relationship in cooperatives, with the BOD as the principal and the professional manager as the agent, from the agency relationship observed in equity firms. The main differences are as follows: (i) dual set of income rights of a cooperative's members (as users and owners); (ii) members formally participate in the cooperative's decision-making process; (iv) members' interests are generally heterogeneous; (v) cooperatives do not have external mechanisms to control management.

In order to understand the variations that have occurred in the models that seek to explain the changing governance structures of cooperatives located in Northern Europe, Bijman et al. (2013) used the case of Dutch cooperatives, which in general represent, in this respect, the other cooperatives operating in this region. The traditional governance structure among Dutch cooperatives has existed for over a century, since the enactment of the first Cooperative Act in 1876. In the Netherlands, a cooperative is defined as a company that performs economic functions for the benefit of its members. As for the traditional governance structure, cooperatives have two governing bodies: the General Assembly (GA) and the Board of Directors. A third body is the Fiscal Council (FC), which is legally required only for large cooperatives. While the executive function in small cooperatives is carried out by the members themselves, in large cooperatives this function is carried out by professional managers (PM) (Bijman et al., 2013).

All members take part in the GA and are democratically entitled to one vote. The GA is used to take decisions on the nomination of members to the Board of Directors, the Supervisory Board, and on important issues such as dissolution processes, mergers, and changes in the cooperative's bylaws. The GA also has the right to approve or not the annual financial report, as an ex-post action. The BOD is the main decision-making body, proposing and implementing the cooperative's strategies and policies. The members of the BOD are elected and appointed by the GA, and the BOD reports to the GA. The BOD appoints the cooperative's managers and thus has management control. The decisions of the Board of Directors are taken collectively, as are the responsibilities. The FC is responsible for controlling the activities and decisions of the BOD. This control function is of an ex-ante nature. Small cooperatives are not obliged to have a FC, in which case the responsibilities that would correspond to the

FC are determined by the cooperative's statutes. Since 1989, large cooperatives (share capital above 16 million euros and having more than 100 employees with a specific board representing them), are legally obliged to have a Board of Commissioners (BOC) with a supervisory body to look after not only the interests of the members but also the interests of the other stakeholders. Specific decisions of the GA require ex-ante approval by the BOC, and the employee council has the right to approve or not approve new members of the GA (Bijman et al., 2013; van der Sangen, 2010).

Traditionally, the role of the managers appointed by the GA was to execute the GA's decisions. However, as cooperatives grew in size and complexity, the PMs took over some of the GA's decision-making functions. Large cooperatives started to have a separation between decision control (monitoring), whose responsibility is of the GA, and decision management (implementation), whose responsibility is of the managers, given the terminology proposed by Fama and Jensen in 1983.

It can be seen that there have been many changes in the corporate governance of Dutch cooperatives (van der Sangen, 2010), among which are:

1. The large cooperatives have introduced a legal division between the cooperative association and the cooperative enterprise, with all assets allocated to the cooperative enterprise, with the justification that in this new legal format, the liability of the cooperative is reduced and managers are given more autonomy.
1. The composition of the Board of Directors starts to admit, in addition to the members, external specialists. This change is justified by the contributions that knowledge holders in specific areas (marketing, finance, human resources, etc.) can offer to the management of the cooperative.
1. The Board of Directors ceases to be the main decision-making body of the cooperative, transferring the power of decision to the managers.
1. After a certain size, the cooperative's FC becomes a BOC in order to control the cooperative's management, together with the BOD, that is, in these cooperatives, there is a situation of double management control, and the members of the BOD and the BOC may be the same people.
1. The FC may admit external experts as members, signalling greater professionalism in the governance of the cooperative.
1. Implementation of a Council of Members (CM), assuming most of the legal functions of the GA, being composed of members and appointed by the GA. In large cooperatives, the CM members are usually organized in geographical districts.

As a result of all the changes in the governance structure of Dutch agricultural cooperatives, two new governance models have emerged, namely the management model and the corporate model.

The main characteristic of this management model is that the BOD is composed exclusively of managers. The literature points out three advantages of this model: (i) the problem of double supervision (FC/BOC) is solved; (ii) the BOD is professional and focuses on the management of the cooperative with greater expertise; (iii) the BOD is granted greater autonomy, which allows for the strengthening of entrepreneurship in the management of the cooperative. The disadvantages of this model are: (i) lack of a structure for ex-ante evaluation of the management decisions and the interests of the members; (ii) lack of a division between the responsibilities of the BOD and the professional management; (iii) lack of power of influence of the members on the decisions of the managers.

The corporate model, on the other hand, can only be applied by cooperatives that have the legal division between association and company, with the association having full ownership of the company. The main characteristic of this model is that the association's directors are part of the company's FC and BOC. The BOD is often composed only of members, while the FC and BOC may also have external experts as members. In this model there is no FC separated from the association, that is, the BOD and FC act in the control of the company and sometimes it is difficult to reconcile the interests of both parties, in this case, the members and the company (Bijman et al., 2013). In Southern Europe, the traditional model is adopted only by small cooperatives, especially in Mediterranean countries. In large cooperatives, as evidenced in Dutch cooperatives, the management and corporate model predominates (Chaddad & Iliopoulos, 2013).

It is observed that the governance structure of cooperatives located in South America, more specifically those of the Southern Cone, can be typified by two models, namely, the traditional and the managerial, with some variations between the two depending on the extent to which members engage in the management and control of the cooperatives' decision-making process (Costa, Chaddad, & Azevedo, 2012).

In cooperatives that adopt the traditional model, the members delegate formal authority to the BOD, but this authority is limited in cases of strategic decisions (dissolution, merger, acquisition) which must be validated by the GA. Another aspect to be highlighted is that in this governance model, although the BOD is responsible for controlling the management, only a part of its members is responsible for decisions, usually the president and his/her executive board, i.e., the president acts in two roles, as president of the BOD and Chief Executive Officer (CEO) of the cooperative (Chaddad & Iliopoulos, 2013; Costa et al., 2012).

In the case of cooperatives that adopt the management model, the members elect and grant formal authority to the Board of Directors, which delegates it to the CEO and his/her executive board. In this case, it is evident the complete division between control and management, and there is not the aforementioned dual role of the president of the Board of Directors and the CEO of the cooperative, as occurs in some cooperatives in Northern Europe (Chaddad & Iliopoulos, 2013; Costa et al., 2012).

The governance structure model of the cooperatives located in North America, more specifically in the United States, is the management model, with a clear division between the control and decision functions. In this model, the Board of Directors is the body that controls the decision, while management is the responsibility of the CEO and his/her executive board, formed by managers. The duality of roles (chairman of the Board and CEO) is not verified in American cooperatives; what may occur in some of them is that the CEO is part of the Board of Directors (Burress, Livingston, & Cook, 2011; Chaddad & Iliopoulos, 2013).

In the case of cooperatives in Australia and New Zealand, the governance structure model is the management model, with a well-defined division between management control, which is the Board of Directors' responsibility, and the management itself, which is exercised by the CEO and his/her executive board (Chaddad & Iliopoulos, 2013). A difference worth mentioning is that in most cooperatives in Oceania, the BOD has a mixed structure, i.e., it is formed by members, mostly employees and independent external advisors, as is the case of irrigation cooperatives in Australia (Plunkett, Chaddad, & Cook, 2010). Most cooperatives in Australia respect the democratic principle of cooperativism that each member has one vote, however, in the case of New Zealand cooperatives, voting rights may be proportional to the volume of activities that the member maintains with the cooperative (Chaddad & Iliopoulos, 2013). It is important to remember that governance adjustments that merely reinforce proportionality rules are very likely to fail in resolving conflicts induced by member preference heterogeneity and the underlying constraints of vaguely defined property rights (Iliopoulos & Valentinov, 2022).

In the case of Brazilian cooperatives, the legislation determines that only members can be part of the Board of Directors, prohibiting external board members, usually with more specialized knowledge, from being members. Furthermore, in the case of the Brazilian cooperative legislation, another body is required in the governance structure called FC, also formed exclusively by members, who do not participate in the Board of Directors. The main role of the FC is to monitor the management of the cooperative so that it fulfils its mission, having as support to perform its tasks, the internal audit work performed by a specialized department and located in the organizational structure of the cooperative (Chaddad & Iliopoulos, 2013).

Continuum of change in governance structures

In terms of content, there is a similarity between the terminology used to characterize the models of cooperative governance structure proposed by Bijman et al. (2013) and Chaddad and Iliopoulos (2013). Only, one notices a difference when they assign names to their models. According to Chaddad and Iliopoulos (2013) the analysis of the formal allocation of property rights allows them to distinguish three generic governance models adopted by cooperatives: (i) integration (traditional model); (ii) separation (extended traditional model) and (iii) delegation (managerial and corporate model). The characteristic that distinguishes them is the extent to which members engage in the management and control functions of the decisions made in the cooperative. In summary, equalizing the two terminologies we would have the models: traditional equivalent to the integration model; traditional extended or equivalent to the management model; and managerial and corporate equivalent to the corporate model.

Chaddad and Iliopoulos (2013) propose a continuum where they describe the typology of governance structures through which, for the most part, cooperatives transit to the extent that the rights over the control and management of the cooperative are allocated, from the members, through the managers, to the last structure, when the cooperative organization ceases to exist as a partnership. The continuum occurs in the following sequence of structures, which the authors call: (i) integration; (ii) quasi-integration; (iii) separation; (iv) delegation, and (v) demutualization.

The original structure would be the integration one (traditional model). In this structure, the members assume the control and management of the cooperative, and there is no division between ownership and control. This model is possible in small cooperatives, usually at the beginning, when all members participate in the decision-making process. As the cooperative grows, this structure is no longer viable because of the slowness and high cost of making decisions collectively. The next structure in the continuum is the quasi-integration (management model), a viable model for most small cooperatives and occurs when members delegate formal and real authority to the BOD. The BOD in turn delegates management responsibility to a CEO and his/her executive board, losing some degree of control over management. The cooperatives located in South America and the Mediterranean countries mostly adopt this governance structure.

Following the continuum, the next structure is the separation structure. The characteristic of this structure is that the members delegate formal authority to the BOD, which concentrates its activities only on the control of decisions. The management of the cooperative is carried out by non-member managers. This model also called traditional extended, is more common in cooperatives located in North America, Oceania, and Northern Europe. The structure following the continuum is delegation. The members delegate formal decision-making authority to the managers, but if the cooperative underperforms, the power of control and decision returns to the members. This structure can be observed in Dutch cooperatives.

The last structure, called demutualization, occurs when the members give up the control of the cooperative and it starts to be conducted as a capital firm. It is suggested that this structure is the one chosen by members when they exchange the costs and risks of maintaining ownership, as well as, of controlling and making collective decisions for the costs of market contracting of their inputs and in the marketing of their production. Staatz (2018) justifies this choice of members for demutualization by the high transaction costs of controlling their cooperative.

Perspective of the life cycle of agricultural cooperatives

An important aspect in studying changes in cooperative governance structures is the life cycle. Some authors state that it is important to consider the life cycle of cooperatives to conduct analyses (Beber, Theuvsen, & Otter, 2018; Byrne, 2023; Cook, 2018; Deng et al., 2021). Cook and Burress (2009) point out that at a stage where the cooperative is characterized as more mature, it usually loses some social benefits, requiring a change in its governance structure and at the limit, if it does not overcome this stage, it can be converted, in countries where legislation allows, into a capital company, such as a joint stock company, for example.

According to Cook and Burress (2009), the life cycle of cooperatives has five stages, namely: (i) economic justification; (ii) organizational design; (iii) growth, glory, and heterogeneity; (iv) recognition and introspection; and (v) choice.

In the Economic Justification stage, the cooperative emerges to address market failures or to control the supply of raw materials, so it has a defensive behavior. In the next stage, Organizational Design, all contracts and their relationships are outlined to allocate ownership costs (Cook & Burress, 2009).

In the stage of Growth, Glory, and Heterogeneity, the organization's degree of complexity increases due to the increase in the number of members, demand for a more diversified portfolio, and area of coverage, which potentializes conflicts related to the lack of clarification in the definition of property rights. The heterogeneity of member preferences is a potential future threat to organizational performance and, therefore, cooperative leaders should be aware of it (Iliopoulos, Värnik, Kiisk, Varthalamis, & Sinnott, 2022). In the Recognition and Introspection stage, due to the loss of some social benefits, members may stop transacting with the cooperative, which implies discussing their future (Cook, 2018).

As a result of the decline of the cooperative that usually occurs in the Recognition and Introspection stage, a last stage is identified, Choice, when the following options are presented to it: (i) dissolution or exit; (ii) remain as a cooperative with adjustments; (iii) transition, changing the ownership structure, such as reinventing itself, when the legislation allows, into a new organizational format (corporation, for example), as identified as New Generation Cooperative (Ajates, 2020).

Formal and relational governance in cooperatives

A large body of literature has focused on the formal governance of cooperatives (Feng & Hendrikse, 2012; Liang & Hendrikse, 2013), with ownership rights as the main object of study for researchers (Cook, 1995). Governance mechanisms aim at minimizing coordination and motivation problems. Coordination mechanisms refer to the difficulty of coordinating interdependent activities. Recent studies show that opportunism may be present in cooperatives and practiced by managers to the detriment of the members. Motivation mechanisms are related to the difficulty of preventing opportunistic behavior due to incomplete contracts (Feng & Hendrikse, 2012; Garrido, 2022).

Formal governance mechanisms are observable rules from written documents that can be enforced by an authority. In the case of cooperatives, they would also involve delegating authority to a manager or scheduling activities that involve deciding in advance how activities can be carried out. Delegating authority to a single cooperative manager may involve control costs arising from the agency. In addition, studies show that centralized decision-making in cooperatives tends to exacerbate conflicts among members (Shantz, Kistruck, Pacheco, & Webb, 2020). These mechanisms can help mitigate opportunistic behavior by limiting partners' actions and improving coordination through centralized decision-making (Zenger et al., 2000). However, formal governance mechanisms are limited in their ability to minimize opportunistic behavior (Diakité et al., 2022).

Governance based on formal contracts represents promises or liabilities to perform particular actions in the future. The more complex the contract, the greater the specification of promises, liabilities, and processes for resolving potential conflicts. This type of contract details the roles and responsibilities to be performed, specifies procedures for monitoring and penalties for noncompliance, and most importantly determines the residual results to be delivered to each of the parties. In a cooperative, members may prefer an explicit contract because it ensures that the terms of cooperation will be enforceable, controls the type and amount of information to be shared, reduces the risks that knowledge transfer may exceed the intended scope, and establishes the basis for lasting trust among members, i.e., even if members do not fully follow the contract, it still provides a set of normative guidelines to regulate the bases of the cooperative agreement (Gimenes et al., 2022; Poppo & Zenger, 2002).

The formal contract establishes how future relationships will be handled, providing rules and procedures for maintaining the relationship and decreasing uncertainty about behavior and residual outcomes. Moreover, if one of the members does not comply with the contractual rules, there are legal and economic consequences for the violation of the rules, which in itself discourages the intention of one member to gain advantage over another, and thus improves the quality of cooperation, since it is the state that judges what is lawful or not in a formal contractual relationship. The complexity of a contract determines the costs of its elaboration, therefore, members assume this cost only when the consequences of a contractual violation are considerable. The economic theory of transaction costs suggests three categories of risks that require contractual safeguards (or integration): asset specificity, frequency, and uncertainty. The importance of contracts may therefore diminish over time as trust emerges from a repetitive exchange relationship between the cooperative and its members. Thus, contracts may play a critical role in the early stages of a partnership, but then diminish significantly as patterns of cooperative behavior and reputation emerge (Gimenes et al., 2022; Poppo & Zenger, 2002).

In the discussion about governance mechanisms, especially in cooperatives, it is necessary to highlight the mechanisms of relational governance. Relational governance can be used as a method to resolve internal tensions in cooperatives (Giglio, Ryngelblum, & Jabbour, 2020) and its mechanisms are closely linked to members and their relationships. Flexibility, honesty, reciprocity, encouragement of partners, solidarity, and relationship preservation are examples of mechanisms that delimit relational governance. Relational governance can also be identified by the existence of a pre-established informal authority aimed at mitigating conflicts between parties or when a group develops informal communication among its members to stabilize their interrelationships (Diakité et al., 2022; Gimenes et al., 2022; Ishak, Omar, Sum, Othman, & Jaafar, 2020; Lucas, Gasselin, & Van Der Ploeg, 2019; Shantz et al., 2020).

Relationship-based governance is based on aspects of mutual trust and commitment, whose foundations are constituted by various theories, such as Social Exchange Theory (SET), Resource Dependence Theory (RDT), and Relational Capital Theory (RCT), as essential coordination mechanisms to ensure the performance of cooperation. It is the culture and informal systems that affect the subject of the relationship and is embodied in a mechanism that stimulates self-management. The sharing of information, trust, and cooperation, makes the relationship bounded by social norms and mechanisms, imposing obligations and generating expectations through processes that promote relational norms and depend on mutual adjustment and joint action, whereby, both parties in cooperation behave with the aim of achieving goals in a collective way (Dong, Yang, & Peizhong, 2019).

Relational governance, which emerges from the values and processes agreed upon in social relationships, minimizes transaction costs, given that the fulfillment of obligations, promises, and expectations occurs through social processes that promote: (i) flexibility norms, facilitating adaptation to unpredictable events; (ii) solidarity, promoting a bilateral approach to problem-solving based on a commitment to joint action through mutual adjustment; and (iii) information sharing, enhancing problem-solving and adaptation by virtue of parties being willing to share private information with each other, including short and long-term plans and goals. As parties commit to such norms, mutuality, and cooperation characterize the resulting behavior (Gimenes et al., 2022; Poppo & Zenger, 2002).

In a cooperative, relational governance is the process by which the parties establish or adjust the rules and norms concerning their collective actions. It is the social construction of mechanisms that define roles and modes of production, align efforts, and reduce conflicts between parties. It is governance that is established when a group creates mechanisms concerning its actions, simultaneously shaping roles, functions, and decision-making, and positioning itself for conflict resolution. It is a set of mechanisms built by the actors themselves that controls and encourages collective action, given that working together can create tensions regarding roles, liabilities, ways of raising resources, and how to use information. These mechanisms encourage synergy and cohesion between the parties, combating opportunistic behavior, that is, in the long run, the partnership will tend to reaffirm its social ties, improving the performance of the cooperation (Benítez-Ávila, Hartmann, Dewulf, & Henseler, 2018; Gimenes et al., 2022; Paswan, Hirunyawipada, & Iyer, 2017).

After a literature review on relational governance, some elements that characterize it can be defined, depending on each organization. The elements are given in the sequence: (i) organizational environment - situation, problem, or opportunity that led to the creation of each governance mechanism; (ii) previous condition of relations - relationship with a predominance of trust and commitment facilitates dialogue to resolve tensions and develop rules for collective action; (iii) content of the governance mechanism - rule, routine, practice, standard goal, norm, ethical value, behavioral control, an incentive for collective action, modes of production or management goals; and (iv) consequences of relational governance - positions, functions, roles, cooperation dynamics, modes of production, decision-making, and actors' behavior (Chen, Lin, & Wang, 2018; Farrokhi-Asl, Makui, Jabbarzadeh, & Barzinpour, 2020; Fremeth & Marcus, 2016; Latusek & Vlaar, 2018; Mishra & Dey, 2018; Pedersen & Johannsen, 2018).

Relational governance depends on the process of building and maintaining mutual trust between members and the leaders of their cooperative, because, when reciprocal, this relationship promotes learning and knowledge transfer for the following reasons: (i) it facilitates intensive interaction among individuals involved in the cooperation allowing to locate the sources of knowledge, contributing to its transfer and complex and tacit learning in all interface of the cooperation; (ii) it decreases the fear of opportunistic behavior, given that it facilitates fluidity in the exchange of knowledge and depends on the degree of openness and transparency between the partners, given that, suspicion stimulates a protectionist behavior of the parties; (iii) encourages partners to establish unusual routines of knowledge sharing facilitating the learning of information and know-how, accelerating its transfer between the parties (Dyer, Singh, & Hesterly, 2018; Gimenes et al., 2022; Kale, Singh, & Perlmutter, 2000).

Mutual trust is a necessary condition for a long-lasting and effective relationship in cooperative arrangements since it reduces transaction costs and improves the performance of the cooperation. From a relational point of view, trust is an important persuasive and encouraging mechanism for the long-term stability and maintenance of cooperation, given the reduction of uncertainty in the behavior of members regarding the management of their cooperatives. Mutual trust is positively related to reduced functional conflict, less stagnation, and a greater desire to resolve disagreements, which increases productivity and cooperative performance itself (Baker, Gibbons, & Murphy, 2002; Gimenes et al., 2022; Hewett & Bearden, 2001; Poppo & Zenger, 2002).

Economists and sociologists present different explanations regarding the role of relational governance in reducing the risks of opportunistic behavior in cooperative arrangements. Economists emphasize the rational origins of relational governance, particularly emphasizing expectations of future cooperation that stimulate cooperation in the present. Sociologists emphasize the social norms and ties that arose from prior exchange. Trust is therefore considered a trait that becomes embedded in a given cooperation. In essence, once a member is given the status of trustworthy, he/she is expected to behave in a trustworthy manner in the future. For economists, trustworthy status is conditional on the benefits that accumulate over time, in contrast to the benefits that accumulate from opportunistic moves that break the trustworthy status. This logic, common to game theory, argues that expectations of rewards from future cooperative behavior encourage cooperation in the present (Baker et al., 2002; Gimenes et al., 2022; Silva & Crubellate, 2019; Uzzi, 1997).

Relational norms, such as mutual trust, are seen by some authors as substitutes for complex and explicit contracts or vertical integration. Such authors justify this position by stating that formal contracts can undermine the ability of an organization to develop relational governance since, to the extent that they signal mistrust between partners, they encourage opportunistic behavior. This argument proposes that relational contracts can replace formal contracts. The presence of a relational governance device eliminates the need for contractual governance (Dyer et al., 2018; Gimenes et al., 2022; Uzzi, 1997).

Contrary to this theoretical assumption that relational governance is a substitute for formal governance, Fici (2013) states that formal governance should prevail over other forms of governance and that relational governance should only be used in a residual way, filling gaps left by formal governance. Other authors, still in this aspect, argue that the two forms of governance (formal and relational) are complementary and, in some studies, it is found that the impact of relational governance on the performance of the members of a cooperative is greater when there is a stronger formal governance (Liang, Lu, & Deng, 2018). Diakité et al. (2022, p. 3) make a warning: “[...] relational mechanisms are not necessarily a panacea, as they also have their limits”.

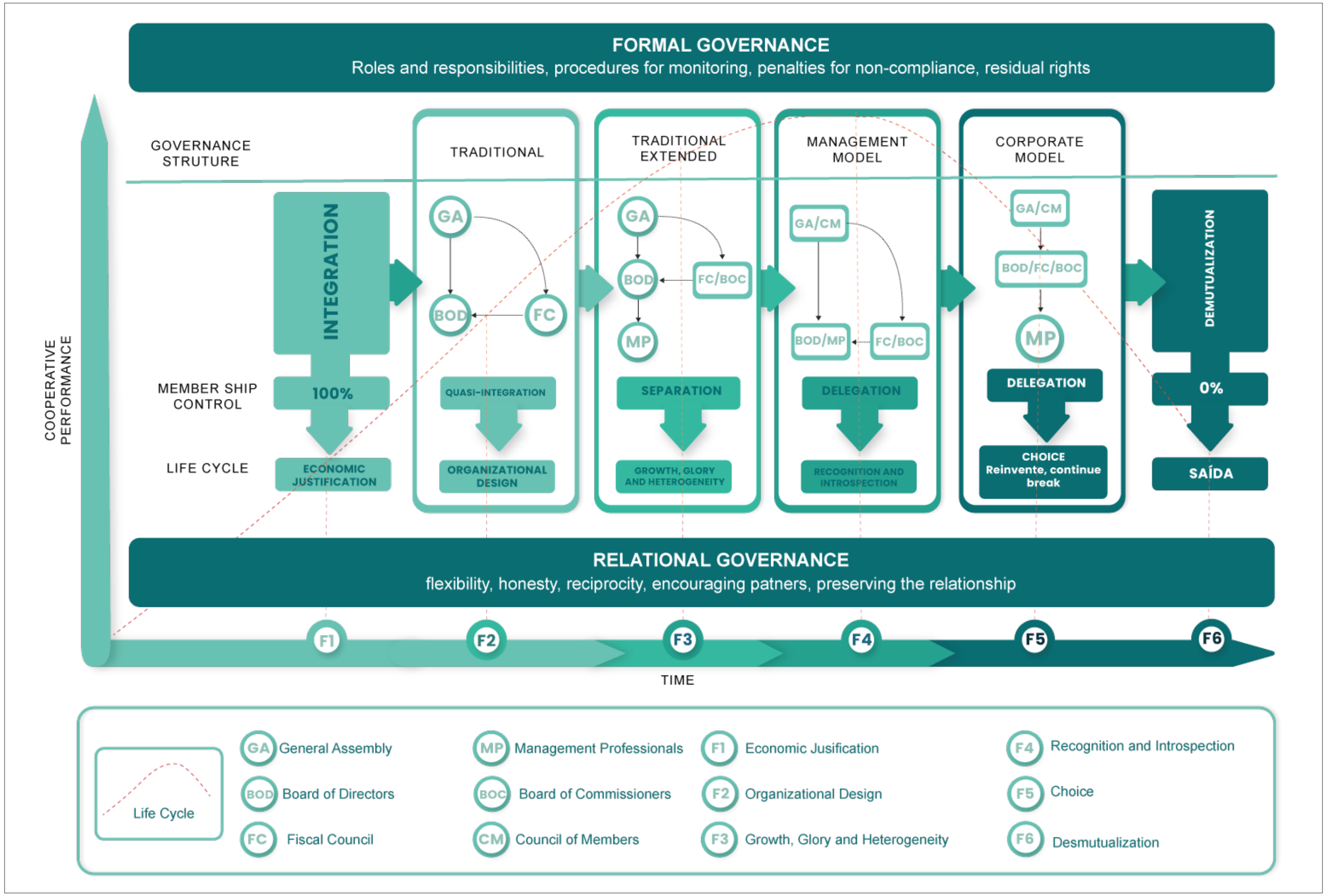
The classical theory of organizational psychology suggests that people are more likely to accept changes that deeply affect them when they participate in the decision. In the cooperative environment, one might expect this postulate to have a parallel, so if members are given high-quality governance, they may be more committed to and trust the BOD and its CEO more. An efficient information system, in association with an environment in which the participation of members is encouraged, may even make them support decisions that are not in their interest at the moment. For this, cooperative leaders and managers are required to have training that goes beyond managerial skills, requiring other skills, social and pedagogical, for example (Österberg & Nilsson, 2009).

Proposed conceptual framework and hypotheses for future lines of research

The conceptual framework is a set of concepts used to represent, describe, and explain a phenomenon that can be an event, object, or process, as well as can be elaborated from elements that can be called constructs that are related to each other and ground research themes, and may or may not present propositions or hypotheses (Ansari & Kant, 2017; Meredith, 1993). The framework allows the knowledge about the topic to grow in a consistent manner forming a robust theoretical basis, simplifying and addressing the complex challenges posed for reflection on the object of study.

Figure 1 presents a conceptual framework with a differentiated approach, as it was elaborated from a continuum of changes in the formal and relational governance structure of agricultural cooperatives over time, from the perspective of their members' control and the stage they are at in their life cycle.

Figure 1 - Conceptual framework on the continuum of change in formal and relational governance structures in agricultural cooperatives from the perspective of member control and organizational life cycle.



Source: own elaboration from studies by Bijman et al. (2014, 2013), Chaddad & Iliopoulos (2013) and Cook & Burress (2009).

In view of the models of traditional, traditional extended, management, and corporate governance structures, this theoretical essay aims at presenting a conceptual framework that integrates the member control and life cycle perspectives of cooperative organizations. Starting from the continuum of changes in the formal and relational governance structure of agricultural cooperatives, it is proposed that in phase 1 (integration) member control is total and is combined with the economic justification of the life cycle. In phase 2 (traditional model) control is quasi-integration and is combined with the organizational design stage of the life cycle. In phase 3 (traditional extended model) separation in membership control occurs and the life cycle goes through the stages of growth, glory, and heterogeneity. In phase 4 (managerial model) associate control is delegated and combined with the stages of recognition and introspection. In phase 5 (corporate model), member control remains delegated and the life cycle reaches the stage of choice (reinvent, continue, or break), and may finally reach the demutualization of the cooperative (phase 6).

The theoretical essay consists of exposing ideas and points of view on a theme, seeking originality of approach without, however, exploring the theme exhaustively. The reader of the essay, at the end of the reading, will not have an answer, or a conclusion. They may have doubt, uneasiness, or even a feeling (even a negative one) that may induce them to seek answers based on the hypotheses raised by the reading in future lines of investigation (Gabriel, 2016). "Unlike the traditional method of doing science, in which the form is considered more important than the content, the theoretical essay requires subjects, essayist and reader, capable of assessing that the understanding of reality can also occur in other ways" (Meneghetti, 2011, p. 321).

Based on these premises that characterize the theoretical essay, some hypotheses are raised that may outline the design of future research projects on the theme studied here and that are proposed below:

1. H1a - The governance structure produces impacts on the diversification of products offered by the cooperative and on its economic performance.
1. H1b - Product diversification can generate conflicts of interest among different classes of members (small and large producers).
1. H1c - Cooperatives with governance structure based on the traditional model have a less diversified product portfolio.
1. H1d - Cooperatives with governance structure based on the management and corporate models have a more diversified product portfolio.
1. H2a - As organizational complexity increases, cooperatives modify their governance structure from the traditional model to the management and corporate model to attract venture capital and minimize potential conflicts of interest among their members.
1. H2b - As the governance structure transitions from the traditional to the managerial and corporate model, the costs of management control increase and the costs of collective decision-making decrease.
1. H3a - Formal governance reduces the risk of opportunistic behavior in cooperatives.

1. H3b - Relational governance reduces the risk of opportunistic behavior in cooperatives.
1. H3c - Relational governance complements contractual governance in seeking to reduce the risk of opportunistic behavior in cooperatives.
1. H3d - Relational governance replaces contractual governance in seeking to reduce the risk of opportunistic behavior in cooperatives.

Concluding remarks

In this essay, it was observed that the literature credits the cooperatives' governance structure with the difficulty in maintaining good economic and social performance since the members are, at the same time, owners, suppliers, and clients of the same organization. However, cooperatives and capital companies coexist in many sectors of modern economies and compete for market share, especially in the agricultural sector. This creates significant tensions for the leaders of agricultural cooperatives, who have questioned the (in)appropriateness of the governance structure adopted.

It is known that in order to meet the interests and informational needs of cooperative members, governance structures should ensure member control, uphold cooperative values, and ensure the long-term viability of the business. According to Novkovic (2013), case studies are needed that reveal best practices for different types of cooperatives. In this sense, this essay brings important contributions. The conceptual framework proposed here can subsidize future studies that analyze the governance structures of agricultural cooperatives. It is argued that the integration of member control and life cycle perspectives is an essential part of improving the understanding of the governance phenomenon in the context of agricultural cooperatives. Furthermore, the hypotheses formulated in the previous section represent research opportunities, with great potential to contribute to the current literature.

Contract-based and relationship-based governance can contribute to the development of cooperation. Formal governance provides clearly articulated contractual terms, solutions, and dispute resolution processes; relational governance promotes trust, relational norms of flexibility, solidarity, bilateralism, and continuity, so that the combination of these two governance mechanisms enhances the performance of cooperation.

In order to survive and sustain their economic and social performance, cooperatives over time have promoted changes in their governance structures. Such changes occurred as strategic and tactical responses to competitive pressures, and this implies giving greater autonomy to managers to the detriment of the members' power of influence.

Granting greater autonomy to managers because they have greater knowledge is expected and proposed by the assumptions of the Theory of Organizations. Specifically, in the case of agricultural cooperatives, besides the problems arising from the lack of capital, diffuse allocation of property rights, and a poorly diversified portfolio of services and products, poor management is the driving force behind most of the cooperative structuring, conversion, or liquidation processes.

The CEO of a cooperative must be interdependent and interactive with the members. As the leader of a society of people (community), he/she needs to be effective in promoting group cohesion, a key element, as well as in stimulating member loyalty and reciprocity. As members often have different positions regarding the prices they receive for their products, cost allocation and distribution of results, and have formal and informal channels to bring their wishes to the CEO, it is up to him/her to build an efficient management information system to carry out decisions that meet sometimes divergent interests. Importantly, “the more heterogeneous the membership, the more difficult it is for the CEO to form consensus and workable internal coalitions” (Feng & Hendrikse, 2012, p. 244). Thus, understanding the rationale behind members' choice to delegate authority to managers to make decisions on their behalf and in their interests is key to ensuring the sustainability of cooperatives, given that the degree of a cooperative's success depends on members' commitment and their trust in the BOD.

The hypotheses presented in the essay provide a solid foundation for future research on the relationship between governance structure, product diversification, and economic performance in cooperatives. Some specific research questions that could be explored include: How does the governance structure of a cooperative affect its decision-making process regarding product diversification? What are the factors that influence the choice of governance structure in cooperatives? How does product diversification affect the risk of opportunistic behavior in cooperatives? How do formal and relational governance mechanisms interact to reduce the risk of opportunistic behavior in cooperatives? These are just a few of the many research questions that could be explored in future studies on this topic. The findings of such studies would have important implications for the design and management of cooperatives.

This study has some limitations. First, it is based on a theoretical analysis and not on empirical data. This means that the results cannot be generalized to all agricultural cooperatives. Second, the study focuses only on agricultural cooperatives. The results may not be applicable to other types of cooperatives. Third, the study does not consider external factors that may affect member control and the life cycle of agricultural cooperatives. These factors include changes in the economic, political, and social environment.

Despite these limitations, this study makes an important contribution to the understanding of member control and the life cycle of agricultural cooperatives. The study provides a conceptual framework that can be used to analyze the evolution of member control in agricultural cooperatives over time. The study also highlights the role of relationships between members and managers in the governance of agricultural cooperatives.

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