SESSION 4: CORPORATE GOVERNANCE RELATED ISSUES

BALANCING CO-OP FIRMS' MULTIFACED GOALS TO SMOOTH GOVERNANCE ISSUES: A BSC APPROACH

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Abstract

Co-op firms are peculiar organisations whose complex objectives often challenge management and governance. Studying their decision-making process, investigating the sometimes-conflicting utility function of co-op members against managers, and considering how performance measurement systems (PMS) may affect management issues increase context base studies which are valuable for researchers and practitioners.

Co-op firms are a form of collective action in which individuals join together on what would be more costly or impossible to achieve individually, generating so-called mutuality (Melis, 1989; Congiu, 2005). Mutuality is the exchange between a co-op and its members (Borzaga & Tortia, 2004; Zamagni, 2005) that goes beyond financial flows to encompass educational and social services. Co-op members provide the central organisation with resources for business implementation to receive, in turn, benefits, such as secure job positions, better conditions, or goods and services at affordable prices. It has been said that co-ops have a dual function: they simultaneously serve economic and social

purposes. For this reason, they fit uncomfortably into existing organisational paradigms.

Pursuing the co-op mutual purpose over time requires the adoption of a management attitude oriented to the creation of economic value for co-op members, that are privileged stakeholders, without sacrificing the needs of survival, development and strengthening of the co-op organisation itself (considered as an autonomous entity) (Matacena, 1990). An adequate remuneration of co-op members and their involvement in the co-op's strategic decision-making usually smooth governance issues by stimulating more collaboration in pursuing business goals, greater responsibility and a sense of belonging to the corporate reality (Charreaux & Desbrières, 2001; Melis, 1983; Freeman et al., 2010). Increased motivation and members' loyalty, in turn, define a more stable social structure in which the low members turnover favours the maintenance of production standards and supports business continuity (Gertler, 2001; Novkovic & Power, 2005). These opportunities are threatened when dissatisfied members gradually withdraw from the co-op, triggering a risky productive instability or even remaining in it but acting opportunistically and challenging the corporate mission.

Previous research has proved that PMSs are fundamental to achieving companies' missions (Kaplan & Norton, 2000; Hatry, 2006). Moreover, effective PMSs influence agency costs and managerial opportunism (Holmstrom, 1989; Songini & Gnan, 2015; Alfadhl & Alabdullah, 2016; Muneer et al., 2017; Quinn et al., 2018). According to Matacena (1990), effective management among co-op strategy, expected goals, and PMS are strategic for preserving a co-op firm's distinctive value. More specifically, for these organisations, a PMS should be able to:

- coordinating, at the strategic planning stage, social goals and financial goals;
- qualifying and quantifying social aims achieved and eventually their links with economic and financial aspects of co-op business;
- allowing internal and external stakeholders to assess and evaluate the financial and social performance of the co-op.

Looking specifically at co-op firms, patrons must become informed about the firm's operations to exercise effective control over the co-op management. Meanwhile, since collective decision-making processes may yield inefficient choices that do not maximise aggregate patron surplus, managers need to educate patrons and guide their decision-making to the best strategic solution. Previous studies have confirmed that accountability issues become relevant when co-op dimensions widen and complexity increases (Narver & Slater, 1990; Gertler, 2001). Therefore, investing in PMSs may reduce co-ops' slack performance and decrease governance conflicts between patrons and managers. Besides this, evidence shows that engaging in comprehensive strategic planning and control mechanisms is still a current issue for co-op firms (Quinn et al., 2018; Mikami, 2018).

Based on these considerations, this study aims to define and discuss a PM framework suitable to be adopted by co-op organisations engaged in agricultural activities (dairy, crops production, honey, vegetable production, etc.), marketing of their members' products and agricultural input supply.

We choose to develop our PM model drawing on the balanced scorecard (BSC) model (Kaplan & Norton, 1996, 2000), which has been partly amended and integrated to cover co-ops' specific PM and governance issues. The BSC has been selected due to its popularity worldwide and its alleged merit to clarify the interlinks among stakeholders' strategic objectives to allow balanced achievements between them. It consists of an integrated business performance management system that promises to align strategic planning and performance control. While previous research on BSC application in investor-owned firms is broad, little attention has been given to BSC development for co-op businesses. Using a system thinking (ST) approach, we draw a model of cause-and-effect interconnections among co-op goals that drive the reasoning for the BSC modelling.

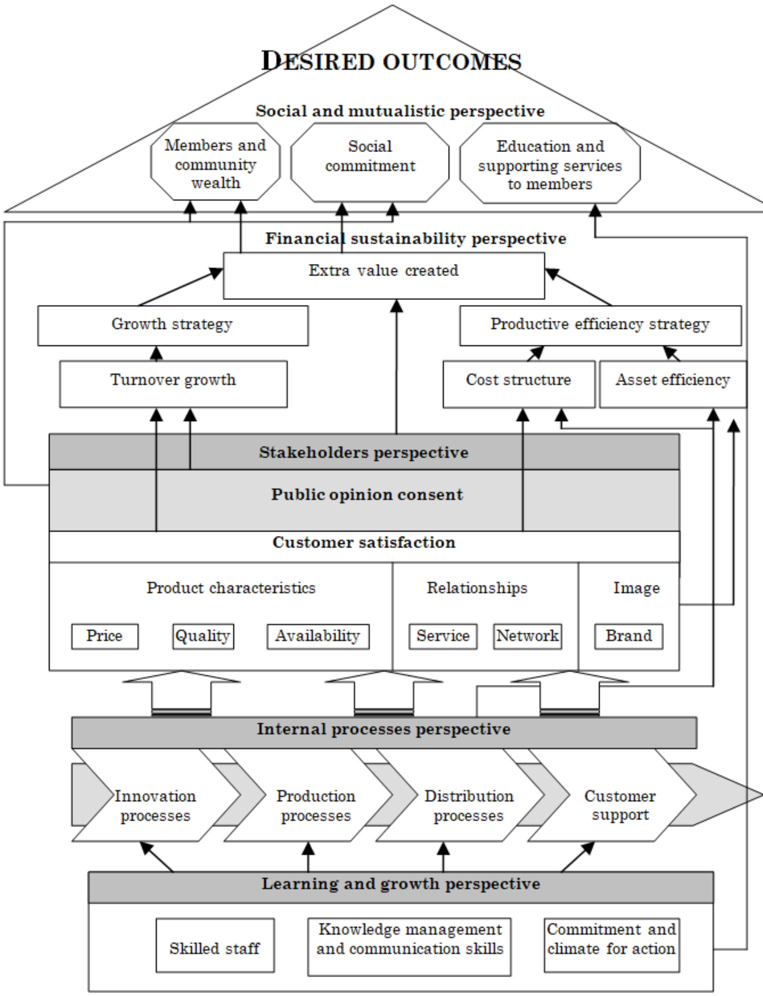
Findings show that the ST approach allows a profound reflection on co-op multifaced goals and cause-and-effect dynamics among strategic objectives. Such an approach leads to a more precise BSC modelling to reflect the peculiar features of co-ops' performance (Figure 1). ST helps clarify interconnections among members and the co-op's utility functions, increasing the opportunity to reconcile a different set of incompatible goals at first sight.

Figure 1. Causal relationships among co-op's strategic objectives

Source: Author's elaboration.

It is relevant to consider that the process that we are suggesting for BSC development in co-op firms concentrates on making explicit the mental maps of the co-op's decision-makers, members and managers, sharing them, challenging their internal consistency and aligning them. Our BSC model identifies the central interconnections between social and financial priorities and organises activity around the crucial co-op's performance drivers (Figure 2).

Figure 2. A general framework for co-op's strategy map



Source: Author's elaboration based on Kaplan and Norton (2000, p. 11).

In our modified BSC, a new perspective is created for social and mutualistic goals which are prioritised over financial goals; the financial perspective is revised to refer to financial sustainability, while the customer perspective is widened to look at the public opinion as a strategic stakeholder sensitive to co-op strategy.

While amongst the existing PM tools, usually, financial systems record business activities that generate income while qualitative measures account for stakeholders' feedback and assess social impact, the model presented in this study offers a framework for combining both outcomes.

However, our study presents some limitations that future studies may iron out. The first limitation is related to the theoretical nature of this research. Our BSC framework is based on our interpretation of co-op performance issues and governance-related frictions as they have emerged from our literature review. For this reason, our model is not generalisable. Additionally, our BSC framework relies on the ST approach; therefore, our reasoning strongly depends on the methodology we have chosen to develop the BSC framework.

However, several alternative approaches exist to support the designing process of a BSC. Therefore, follow-up research is required to evaluate the feasibility of the BSC model presented in the current study. Action research and case studies using ST or other methodologies that rely on visualisation techniques for causal linkages will improve BSC development and produce additional knowledge on co-op decision-making and PM-related issues.

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