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The Horizon Problem in Bordeaux Wine Cooperatives **Bernard DEL'HOMME, Julien CADOT, Adeline UGAGLIA**

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50% of the Bordeaux wine production is processed by cooperatives (coopdefrance.fr). However, cooperatives, as governance structures with “ill-defined property rights” (Cook, 1995), may implement sub-optimal strategies. One fundamental feature of cooperative ownership is the restrictions on the transferability of property rights of cooperative members. In the perspective of the agency theory, this implies the horizon problem, which refers to the disincentive to contribute to growth opportunities (or underinvestment due to short-term decision making). In this research, we investigate the horizon problem through an in-depth analysis of ten Bordeaux Wine cooperatives.

In France, the principle of a-capitalism prohibits the sale of property rights by cooperative members. When cooperative members quit the cooperative, the cooperative repays the part of equity at the nominal price. As a result, the cooperative members do not benefit from the value of growth opportunities. By comparison, the price of stocks reflects the value of future cash flows and the stockholders entirely benefits from this value by their right to sell their stocks at any time. Consequently, the cooperative members may have interest to put pressure on the board of director and management to increase the proportion of the cooperative’s cash flow devoted to current payments for members relative to investments (Cook).

This bias towards short-term decision making may be exacerbated by several factors: an unbalanced demographic composition of membership, when members who are close to retirement outnumber young members (Hendrikse and Veerman 1995); the closeness of management and membership (when the director is a cooperative member for example) and some personal attributes of the director such as its education level (Bertrand and Schoar, 2003), his age (ambiguous effects), overconfidence or risk aversion.

The horizon problem can be attenuated for two reasons: the value of cooperative’s growth opportunities can be reflected in the value of farm fixed resources (mainly the value of land) and the transfer of the membership to the heirs into farm families (Staatz 1987). As a result, the horizon problem depends on factors directly related to the cooperative, as the contract terms on the retiring conditions, the age of the cooperative members and factors related to the dynamic of the land markets and generation renewal.

We propose to consider this issue through a qualitative approach. To rely on case studies provides several advantages to handle with the horizon problem. Indeed, to characterize the financial behavior of firms is not simple. We need to consider growth opportunities, the lifecycle of cooperatives and the organizational architecture of the cooperatives. Moreover, the possible determinants of the horizon problem interact in complicated ways which requires an in-depth analysis of governance structure and financial decisions.

Our case studies show that Bordeaux Wine Cooperatives have tended to devote more cash flows to current payments of cooperative members in the recent times. Payments can represent more than 110 or 120% of the cash flows that the cooperative is able to generate. When cash entries slow down, the cooperative uses short term debt to provide regular payments to cooperative members. Sometimes,

cooperatives can benefit from excess cash in the opposite case. In so doing, cooperatives appear as a buffer against market risks.

We do not observe a direct link between cooperative governance processes and their financial behavior. It appears that cooperative members strongly defend their claims on the cooperative cash flows. And this attitude towards cash is effective whether the manager is a cooperative member or a professional manager, as cooperative members strongly dominate the board. Again, we cannot say that the most proactive cooperatives devote less cash flow to current payments.

One possible explanation is that the best performing cooperatives are those which increase their market power and reduce the fixed costs by merging. This policy, which does not need a secured financing through retained earnings, seems to be currently rewarding... but for how long?

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