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# External Stakeholders Oriented Governance: Yes, why not, but what for? The Wine Co-operatives Case

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## Abstract:

Agricultural cooperatives have an original organizational structure in which their democratic governance is directed towards the community in every sense. In this context, we have examined to what extent a stronger partnership with external actors would create value for the cooperatives. We surveyed a representative sample of winemaking cooperatives in Languedoc-Roussillon and analyzed their partnership governance methods, their size, their performance and the effects of the first two points on the third one using structural equation modelling. It was found that frequent and extensive interaction between the winemaking cooperatives and their external stakeholders was a source of additional performance in the long term, an effect which is added to that of the size.

## Introduction

Facing globalization and market volatility issues, agricultural co-ops have to adapt in their management and governance practices. In this context, our study deals with the influence of a more external stakeholders oriented governance, and so a more participative decision-making process, on wine co-ops performance.

## Theoretical framework and methodology

We focused on stakeholders theory (Freeman, 1984; Freeman et al., 2010) to study the intimate mechanisms of cooperatives governance and more precisely the impact of external actors on them (Cornforth, 2004; Charreaux and Desbrières, 1998). Furthermore, we looked at the links between partnership governance and firm performance (Jensen, 2001) which are rather under studied, especially as far as co-ops are concerned.

We designed a specific model (agricultural sector) that attempts to explain these complex relationships, also including the effect of cooperative size, and we tested it on wine co-ops in the South of France (Languedoc-Roussillon). Our sample was made of 87 co-ops, representing 50% of the economic weight of wine cooperation in this area. We used a structural equation modelling and 16 indicators to run our empirical study (figure 1).

## Results

We first found that the partnership dimension of agricultural co-ops and especially wine ones is a fact and that external stakeholders (customers, suppliers, auditors, agricultural professional organisations, etc...) play an important role inside the "black box" of co-ops.

Our second finding was that an increasing level of wine co-ops external partnership governance and a higher size imply a more important level of global long run performance (figure 1). The model has a very good validity (high GoF), relationships between concepts are positive and highly significant.

Our third and last finding consisted on showing that external partnership governance is multi-faced and has contrasted effects on co-ops long-term performance. For example, the degree of openness of internal governance has a positive effect on financial performance (figure 2), whereas external interactions of BoD limit vines loss (figure 3).

## Conclusion

We can say that this survey underlined the crucial importance of external stakeholders on agricultural co-ops governance and economic performance. Their influence, mixed with more classical determinants (size of the firm), lead to higher long-term value creation.

These results represent a significant advance in the study of cooperative governance and allow us to develop organizational improvements for winemaking cooperatives.

Some future researches could go further on this topic with a larger sample of wine and other agricultural co-ops, with more frequent governance variables measurement and a more dynamic approach.

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Figure 1 - Structural equation modelling – Partnership Governance-Performance Model

