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# Analysis on Governance Structure of Farmers' Specialized Cooperatives in Sichuan Province

Juan ZHANG, Xiumin WU\*, Cheng TANG

College of Economics and Management, Sichuan Agricultural University, Chengdu 611130, China

**Abstract** In this paper, 87 farmers' specialized cooperatives in Sichuan Province were investigated firstly, and then their governance structure was analyzed from the aspects of authority, decision-making mechanism, supervision mechanism and executive body based on the corporative governance structure in narrowest sense, finally corresponding policy suggestions for improving the governance structure of farmers' specialized cooperatives in Sichuan Province were put forward. It is concluded that human control is serious within farmers' specialized cooperatives; inner supervision is effective; council has great effects on governance structure; the cooperatives give limited incentive to managers.

**Key words** Farmers' specialized cooperatives, Governance structure, Sichuan Province

Since the implementation of the *Law on Farmers' Specialized Cooperatives* in China in 2007, farmers' specialized cooperatives in Sichuan Province have developed rapidly. By the end of 2008, there were 12 569 farmers' specialized cooperative associations with 2.167 millions members, and 4.81 million peasant households take part in these associations, accounting for 36% of total number of peasant households. Rapid development of farmers' specialized cooperatives has greatly increased both production and income of farmers, and has played active roles in the development of rural economy. But at the same time, governance issues of farmers' specialized cooperatives become increasingly prominent, such as low degree of standardization, unbalanced growth, insufficient stimulation for members and managers, serious inner phenomenon of human control, different degrees of hitchhike, and formalistic democratic decision-making, which hinder scientific development of farmers' specialized cooperatives. Here, 87 farmers' specialized cooperatives in Sichuan Province were investigated firstly, and then their governance structures were discussed, finally corresponding policy suggestions for improving the governance structure of farmers' specialized cooperatives in Sichuan Province were put forward in this paper.

## 1 Basic situations of sample cooperatives

Data studied are from the sample survey of cooperatives in nine counties (districts) of Sichuan Province in 2009 and 2010. Three counties (districts) in each city (prefecture) of Sichuan Province were sampled in respect of GDP per capita at high, middle and low levels, and farmers' specialized cooperatives in nine counties (districts) including Shuangliu County, Pi County, Jingyang District, Yucheng District, Dongpo District, Weiyuan County, Mingshan County, Xichong County, Yingshan County were surveyed through questionnaires. There are 118 questionnaires released and 108 questionnaires collected. Among them, there are 87 valid

questionnaires, accounting for 80.56% of total number of questionnaires collected.

In respect of founding time of 87 farmers' specialized cooperatives, 88% of cooperatives were founded in or after 2007. Among them, the cooperatives founded in 2007 makes up 34.5%, while 49.4% of cooperatives were founded in 2008. It shows that most farmers' specialized cooperatives were set up after the promulgation of *Law on Farmers' Specialized Cooperatives*, and have been run for a short time, so their growth is immature. From the aspect of member number, most cooperatives have a few members, that is, about 50% of cooperatives have fewer than 100 members, while cooperatives having above 1 000 members only account for 9.2%. Among these samples, the minimum value is four, while the maximum value reaches 9 300. In respect of relaying departments, around 50% of cooperatives were set up by agricultural producers based on their organizational resources, production and processing technology, and marketing channels (Table 1).

**Table 1** Distribution of relaying departments of farmers' specialized cooperatives

Founder of cooperatives	Number of cooperatives	Proportion of cooperatives
Agricultural producers	42	48.3
Major enterprises transporting and selling agricultural products	10	11.5
Agricultural leading enterprises	5	5.7
Supply and marketing cooperatives	2	2.3
Government functional departments	17	19.5
Agricultural technology service department	6	6.9
Related agricultural operators	5	5.7

## 2 Empirical analysis on the governance structure of farmers' specialized cooperatives in Sichuan Province

Based on the corporative governance structure in narrowest sense, the governance structure of farmers' specialized cooperatives in Sichuan Province is grouped into four mechanisms, including gener-

al meeting of commune members, council, board of supervisors, and manager layer. Among them, general meeting of commune members is authority; council is decision-making mechanism; board of supervisors is supervision mechanism; manager layer is executive body.

**2.1 Authority** General meeting of commune members is the highest authority, where members can express their views to realize democratic management and supervision. According to investigation situations, members' ability to withdraw from a cooperative, members' voting ways and stock ownership structure have great effects on the exertion of general meeting of commune members.

**2.1.1 Members' ability to withdraw from a cooperative.** Members' ability to withdraw from a cooperative, one of important indicators judging the governance structure of farmers' specialized cooperatives, reflects managers' deterrent effect. When a member will withdraw from his cooperative, the member's ability to withdraw from a cooperative is weak if his stockholding is not given to him; if his stockholding is returned to him, the member's ability to withdraw from a cooperative is general; if his stockholding and its increase are given to him, the member's ability to withdraw from a cooperative is very powerful. The survey results show that half of cooperatives can return stockholding and its increase to the member who withdraws from a cooperative; members' ability to withdraw from 42.5% of cooperatives is general; only 6.9% of cooperatives is weak in members' ability to withdraw from a cooperative (Table 2). The results above reveal that members' ability to withdraw from a cooperative is extremely strong, in accordance with the cooperative principle "free withdrawal".

**Table 2** Members' ability to withdraw from a cooperative

Ability to withdraw from a cooperative	Number of cooperatives	Proportion of cooperatives // %
Weak	6	6.9
General	37	42.5
Strong	44	50.6
Total	87	100

**2.1.2 Members' voting ways.** Among these cooperatives, each member has one vote at the general meeting of commune members in 74 cooperatives, accounting for 85.1% ; 10 cooperatives adopt voting way that every share has one vote, making up 11.5% ; three cooperatives give priority to the latter voting way rather than the former, only accounting for 3.4% ; there are no cooperatives that assign voting right according to patronage amount (Table 3). In fact, presidents or council members determine voting result in most cooperatives, and councils are almost controlled by major shareholders including chief producers and owners of enterprises, while common members can only use their cooperatives, and they are always passive, showing that human control phenomenon is obvious within cooperatives.

**2.1.3 Stock ownership structure.** Concentrated stock ownership shows that few members have a big capital contribution to cooperatives. Generally speaking, excessively concentrated stock ownership is not an effective governance structure. It is because that excessively concentrated stock ownership will decrease other

members' acceptance and sense of belonging to cooperatives, and may make few members seize the interests of others. The share proportions of the first ten big stockholders were surveyed, and it can reflect the concentrated degree of stock ownership structure well (Table 3). The results show that the average shareholding rate of the first three big stockholders is 36.9% , while the average shareholding rate of the first five ( or ten ) big stockholders is 47.5% ( or 55.3% ). Besides, the shareholding rate of the first ten big stockholders varies from 40.0% to 60.0% in 35 cooperatives, accounting for 40.2% , revealing that the stock ownership is highly concentrated.

**Table 3** Share proportions of the first ten big stockholders %

Stockholder	Minimum shareholding rate	Maximum shareholding rate	Average shareholding rate
First three big stockholders	7	65	36.9
First five big stockholders	10	70	47.5
First ten big stockholders	13	96	55.3

**2.2 Decision-making mechanism** Council is not set up in all cooperatives, and cooperatives can found a council according to their own situation. Almost all cooperatives investigated have their council, and council members are composed of business and agency representatives as well as cooperative producers. All councils are small, and the quantity of council members shows normal distribution, varying from 3 to 11. Among the cooperatives surveyed, most cooperatives have five council members each, making for 31.0% of total number of cooperatives, followed by the councils with three or seven members, which account for 21.8% and 17.2% .

**2.3 Supervision mechanism** According to the *Law on Farmers' Specialized Cooperatives*, farmers' specialized cooperatives can set up board of supervisors or not. Among the farmers' specialized cooperatives investigated, there are 55 cooperatives having a board of supervisors, accounting for 63.2% ; there is no board of supervisors in 32 cooperatives, making up 36.8% . Most boards of supervisors have 1 – 5 members. Among them, 23 boards have three supervisors each, accounting for 41.8% of total quantity of boards.

In addition, the holding of general meeting of commune members and council is an important way to supervise cooperatives. In general, the more the general meeting of commune members and council, the more normative the cooperative operation, and the more members' right to know and supervise. All 87 cooperatives held one general meeting of commune members at least last year, and the maximum reached 12 times, while most cooperatives held 1 – 3 times of general meeting. However, seven cooperatives held not hold council last year, while some cooperatives held 24 times of council.

**2.4 Executive body** According to the *Law on Farmers' Specialized Cooperatives*, president or other professional management staff engaged can be the managers of cooperatives, as well as

members of a council. Among the 87 cooperatives surveyed, 49 cooperatives have no manager, accounting for 56.3% ; 38 cooperatives have managers, making up 43.7% . Among the cooperatives without managers, president is also manager in 31 cooperatives, accounting for 81.6% ; a common member of a council is appointed to the post of manager in four cooperatives, making up 10.5% ; a common member is manager in one cooperative, accounting for 2.6% ; professional management staff engaged holds a post of manager in two cooperatives, making up 5.3% . It reveals that president is also manager in most cooperatives having manager, which is in accordance with the current development of cooperatives.

From the aspect of managers' regard, it is seen that their main income is from profit returned according to trading volume, sales revenue of products and share profit, instead of wage, bonus and dividend. Among these cooperatives, 39 cooperatives return profit to managers according to trading volume, accounting for 44.8% ; 30 cooperatives give regard to managers according to sales revenue of products, making up 34.5% ; managers can obtain share profit in 18 cooperatives , accounting for 20.7% . In respect of managers' incentive from cooperatives, five cooperatives give managers an full incentive, accounting for 5.7% ; six cooperatives provide an fuller incentive to managers, making up 6.9% ; 31 cooperatives give a medium incentive to managers, accounting for 35.6% ; the incentive is not full in 27 cooperatives (31.1% ) ; it is extremely insufficient in 18 cooperatives (20.7% ) .

The results above indicate that a few farmers' specialized cooperatives in Sichuan Province have the post of manager, and president is also manager in most cooperatives having manager, while few professional managers are engaged by these cooperatives, which limits the long-term development of the cooperatives. Moreover, managers are given little wage by the cooperatives that give them a limited incentive.

### 3 Conclusions and suggestions

First, from the aspect of authority, it is seen that human control is serious within farmers' specialized cooperatives in Sichuan Province, and the voting way that one member has one vote is not implemented in fact, while democratic management becomes a mere formality. Though 85.1% of cooperatives adopt the voting way that one member has one vote, major stockholders determine very important decisions. Council is the governance core of the cooperatives, and council members are sponsors of the cooperatives and owners of enterprises who have major share, so they determine most decisions. Stock ownership is relatively centralized in these cooperatives, that is, the maximum shareholding rate of the first three ( five or ten ) big stockholders reaches 65% ( 70% or 96% ). At early stage of cooperative development, high shareholding rate can attract more excellent members with certain resources and ability to work in the cooperatives to improve the management level of these cooperatives. However, it may result in absolute monopoly of the cooperatives, and thereby affects other members' welfare and loyalty.

Second, in respect of decision-making and supervision mech-

anism, council has great effects on the governance of the cooperatives. Each council has 3 – 11 members, and most councils have five members each, showing U-type distribution. The cooperatives have powerful internal supervision. On average, 1 – 3 times of general meeting of commune members are held every year, and the cooperatives holding above six times of council every year accounted for 27.7% . In a word, members actively supervise their cooperatives.

Third, from the aspect of executive body, it is found that president is also manager, and managers have low wage, while the cooperatives give little incentive to managers. Among the cooperatives without managers, president is also manager in 31 cooperatives, accounting for 81.6% ; professional management staff engaged holds a post of manager in two cooperatives, making up 5.3% . Managers' regard is mainly from profit returned according to trading volume as well as sales revenue of products, instead of wage, bonus and dividend. Among the 87 cooperatives, incentive given to managers by most cooperatives is limited, that is, five cooperatives give managers an full incentive, accounting for 5.7% ; the incentive is extremely insufficient in 18 cooperatives (20.7% ) . It is in accordance with the current governance situation of cooperatives in Sichuan Province, that is, few professional managers are engaged by these cooperatives, and most cooperatives are at low incentive and reward level, which seriously restricts the long-term development of the cooperatives.

Based on the analysis above, some suggestions were put forward. Firstly, the voting way that every share has one vote should be carried out, and decision-making mechanism should be improved. Regulations of cooperatives must be implemented strictly, and some major mechanisms should be set up and fulfill their functions. In respect of democratic decision-making, common members ought to take part in making a decision and exercise their power. Secondly, incentive measures should be strengthened, and governance role should be shown. At present, incentive given to managers by cooperatives is limited, and they lack enthusiasm for work, so some incentive measures promoting the development of cooperatives should be adopted, which is crucial to the rapid and sound growth of cooperatives. Thirdly, it is necessary to improve institutional mechanisms and strengthen the construction of the "two sessions". That is, cooperatives should make an effort to construct the institutional mechanisms of council and board of supervisors, and hold council regularly to discuss major development issues of cooperatives. Besides, council members should be enlarged moderately to make cooperatives run orderly and effectively and realize the expected development goals.

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(1) Strengthen propaganda of FFCs, to let more farmers know these cooperatives. On the one hand, it should take full advantage of mass media to make some advertisements of FFCs; on the other hand, it is preferred to organize professional personnel to explain and publicize knowledge of forest farmers' cooperatives, so as to strengthen farmers' cooperation awareness.

(2) Reinforce cultivation of new farmers. Relevant departments should increase investment in farmer education, to provide favorable re-education conditions for farmers, stimulate them to promote their ideas, and cultivate vigorous, knowledgeable and innovative talents to inject lasting vigor for development of forest farmers' cooperatives.

(3) Establish incentive mechanism for farmers' participation in cooperatives. Government should encourage and support development of FFCs. Firstly, it should create excellent macro-environment for cooperative development. Secondly, it should encourage establishing incentive mechanism in accordance with provisions of *Law of the People's Republic of China on Specialized Farmers' Cooperatives*, to increase potential income of farmers' participation in cooperatives.

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