Agribusiness is a unique sector for agency theory. One reason relies on the pervasiveness of specific organizational forms such as family-controlled firms and cooperatives. A second reason relies on vertical integration issues (Boland et al., 2008). Our research aims at comparing agency costs of firms with different ownership structures and vertical integration strategies.

Ang, Cole and Lin (2000) provided a methodology to measure agency costs. They calculated agency costs related to the separation of ownership and control by comparing the efficiency of firms managed by shareholders to the efficiency of firms managed by outsiders. Multivariate regressions were estimated using ownership structure, external monitoring, capital structure, industry effects, annual sales and age of firm as explanatory variables. In our research, we follow a similar approach and adapt it to agribusiness by adding cooperatives as a specific ownership structure and considering interactions with vertical integration strategies. Moreover, for a full understanding of the results, we conduct an analysis of the role of these variables on profitability (operating income scaled by sales).

Our research is based on three assumptions:

(i) 100% family-controlled firms (and managed by a family member) display the lowest agency costs, as they are the most similar to the Jensen and Meckling’s zero agency cost base case (Ang, Cole and Lin 2000) – note that this assumption contradicts some of the agency literature outcomes arguing that agency costs in family-controlled firms can be especially high because of a lack of market discipline, higher exit costs and greater conflict resolution costs (Boland et al 2008);

(ii) cooperatives, as vaguely defined property structures (Cook, 1995), should display higher agency costs than non-cooperative firms;

(iii) vertical integration, as an answer to market imperfections and contractual hazards (Joskow, 2005), leaves room for managerial discretion and thus agency costs.

We apply the Ang, Cole and Lin’s methodology to measure agency costs in the wine processing sector in France. We use an original database, the “Enquête sur les determinants de la performance des entreprises viti-vinicoles françaises” (Survey on the determinants of French wine firms’ performance) including information on strategy, marketing, finance as well as financial data on 210 French wine firms. The data had been collected through a survey completed by the managers of the firms in a series of one hour face-to-face interview. This

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information has been merged with a financial database (Diane) which covers the years 1996 to 2005.

We simultaneously consider ownership structure and vertical integration in taking their interactions as explanatory variables of operating expenses (total expenses less raw materials, wages and interest expense – we slightly differ from the Ang, Cole and Lin’s approach to adapt the analysis to French accounting), as excessive expense on perks and other nonessentials should be reflected in the operating expenses. Our ownership structure variable distinguishes the family-controlled firm, when the family manager owns more than 98% of the firm, from the firms where equity and management are separated and cooperative firms. The vertical integration variable is based on the proportion of bulk wine production on total production. We categorize the firms in three groups, non-vertically integrated when the bulk wine production is higher than 60% of total production (the remaining production is bottles or Bag In Box, i.e. the final product bought by consumers), fully integrated firms when bulk wine represents less than 1.5% of total production and an intermediate category when bulk wine production is between the two thresholds. We control marketing expenses, innovation efforts, size, localization, years and fixed effects.

We obtain 1120 observations. The econometric analysis displays highly significant results:

(i) Operating expenses are about three percent lower for firms with outside equity. This contradicts our first assumption and the Ang, Cole and Lin’s outcomes. Family-controlled firms may be subject to agency problems partly solved by the “outside equity” discipline.

(ii) Operating expenses are not significantly higher for cooperative firms than for non-integrated family-controlled firms. Moreover, they are lower for cooperatives in regard to the most advanced firms in vertical integration.

(iii) Operating expenses increase with vertical integration for non-cooperative firms: they are about 5% higher for integrated firms than for non-integrated ones. This may be interpreted as an increase of agency cost with vertical integration.

For a better understanding of these results, we investigate how these variables are related to profitability (operating income scaled by sales). Although the econometric analysis provides significant and stable results, we see that profitability is less sensitive than operating expenses to our set of explanatory variables. This is an argument in favour of the Ang, Cole and Lin’s methodology to investigate the relationship between organizational forms and agency costs. The main outcome of the analysis is that profitability increases with vertical integration except for cooperatives. This may show that the benefits of vertical integration for non-cooperative firms outweigh the agency costs. Moreover, cooperatives do not appear as less profitable except for the firms most involved in vertical integration. This somehow contradicts our first outcome showing that agency costs do not increase with vertical integration for cooperatives, unless that these agency costs are seen as necessary investments for profitability. In this perspective, vertical integration would require intangible investments other than marketing and innovation for organizational performance. Our results show that French wine cooperatives fail on this point.
References


