

Ownership, Control, Agency and Residual Claims: New Insights on Co-operatives and Nonprofit Organisations

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Overview

- Brief literature on theory of the firm
- Towards a governance taxonomy
- Tentative application to New Zealand's Primary Health Sector
- Conclusions for a better model of primary health contracting

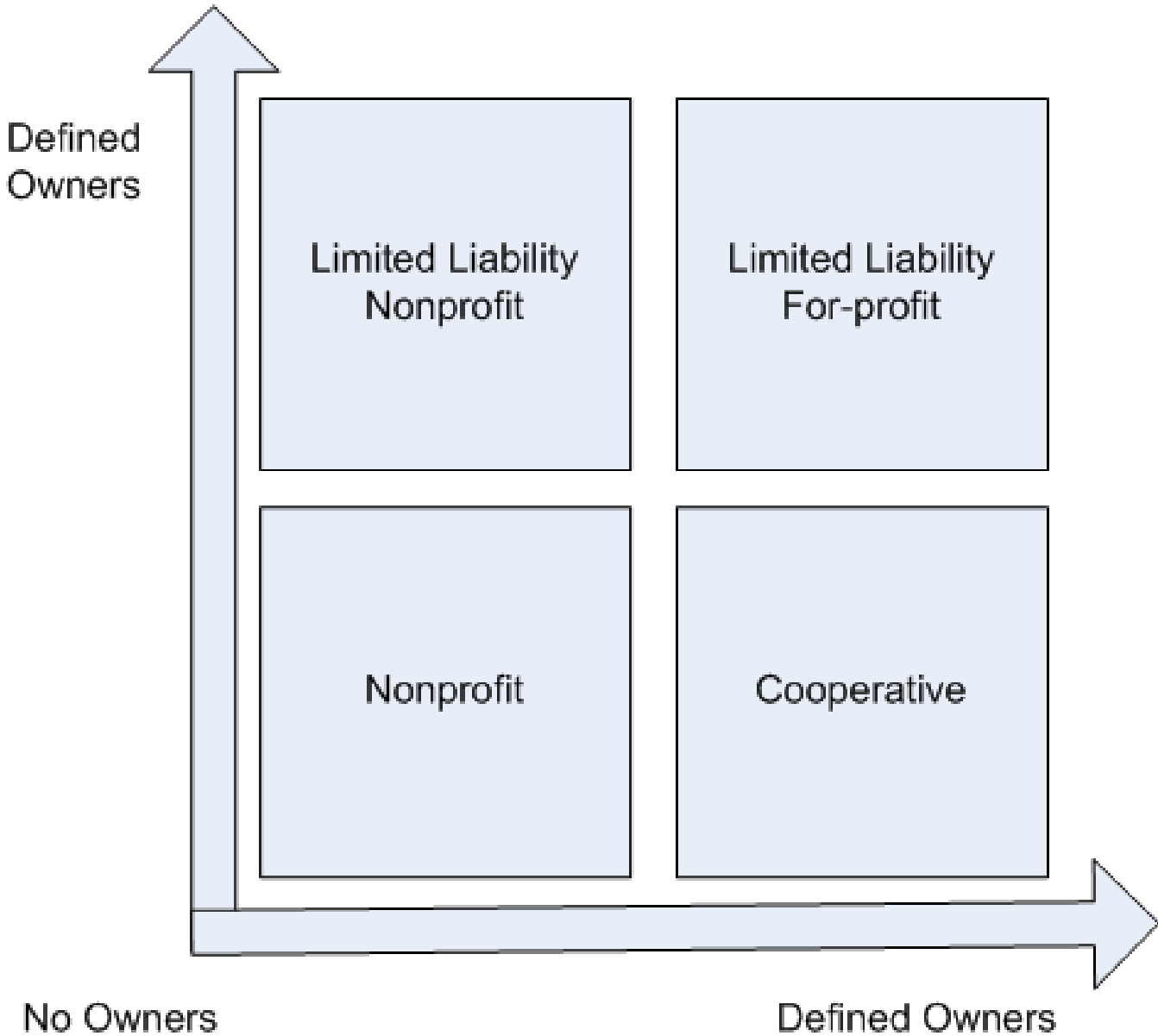
Governance and the theory of the firm

- Separation of ownership and governance requires alignment of interests (Berle and Mean, 1937)
- Ownership can be disaggregated into ‘rights’ (Demsetz, 1967; Hart, 2003; Hart and Moore, 1999)
- Firm is a contracting legal fiction (Jensen and Meckling, 1976) but this extends to the agency problems in organisations of all types – for-profit, nonprofit, cooperatives etc (Fama and Jensen, 1983).

Specifically the nonprofit 'firm'

- Hansmann considered how the non-distribution constraint and member owners could affect theories of firms
- Contractible and non-contractible transactions (Evans, Guthrie and Quigley, 2012)
- Rights over assets and rights over income (Gross man and Hart, 1986)

Residual Assets



Income Stream

A control continuum



Claim on value of assets (right to make decisions)

No claim on value of assets

Share of income
in % of
ownership

Share of income
in % of activity

No share of income

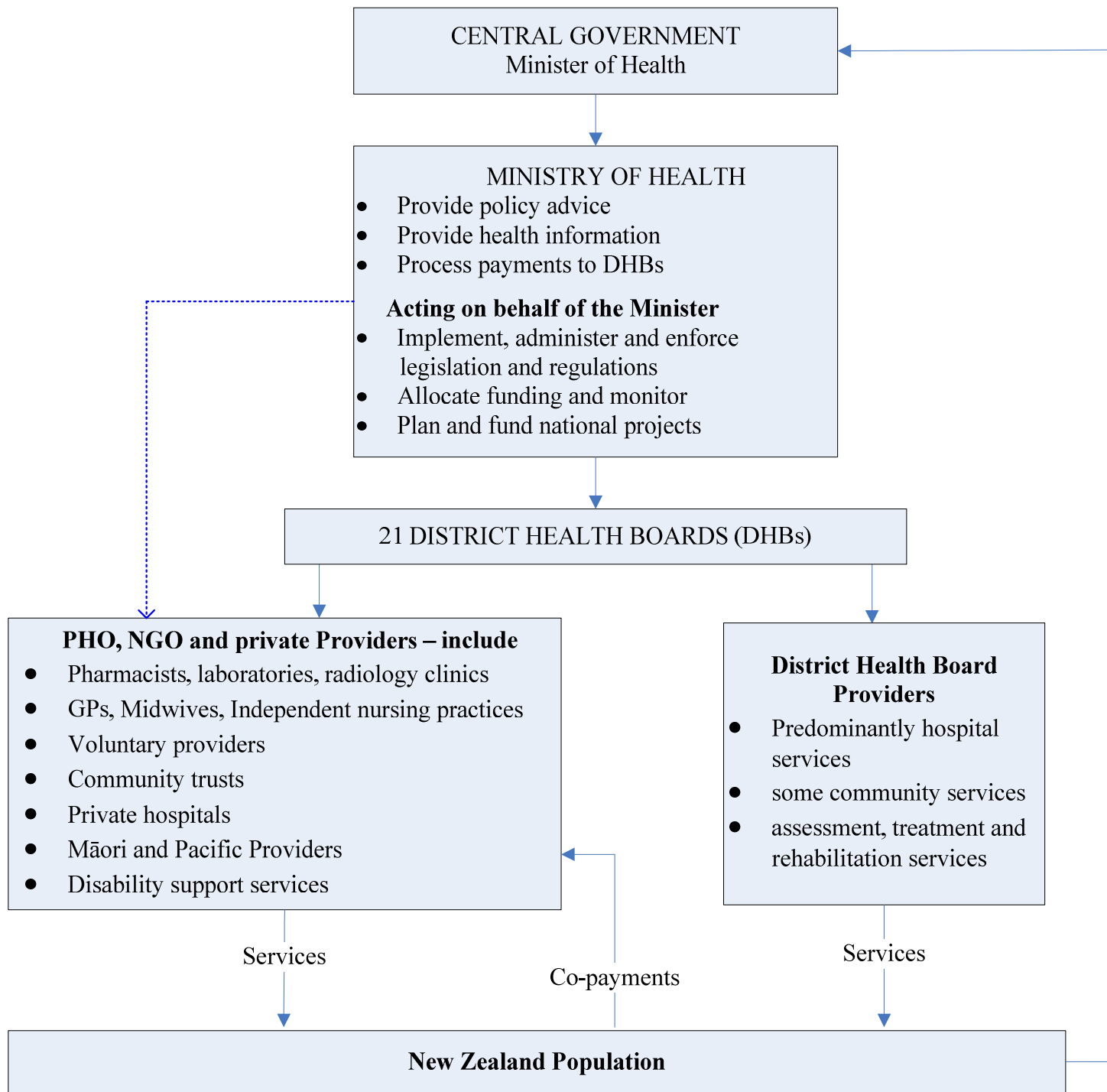
Limited liability
company –
shareholder
participates in
income and
assets

Cooperative –
member has
claim on assets
and claim on
income streams
on basis of
activity

Nonprofit –
member-
beneficiaries
with claims on
assets but not
income. Benefit
from reduced
costs

Cooperative –
member has no
claim on assets
and no claim on
income streams.
Benefit from
reduced costs

Nonprofit
member has no
claim on assets
and no claim on
income streams



Taxes

A control continuum in Primary Health Care



Claim on value of assets (right to make decisions)

No claim on value of assets

IPA

**Iwi/
Maori
based
PHO**

**Union
Health
PHO**

Charity

Share of income
in % of
ownership

Share of income
in % of activity

No share of income

Limited liability
company –
shareholder
participates in
income and
assets

Cooperative –
member has
claim on assets
and claim on
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Percentage of board members representing provider origins

	Consumer origin	Provider origin	Mixed origin
Average	28.6%	46.1%	45.8%
Lowest	0	30%	14%
Highest	50%	75%	78%

Average equity/revenue 2007-2011

	Consumer origin	Provider origin	Mixed origin
Average	19.73%	4.69%	6.81%
Lowest	0.45%	0.16%	0
Highest	56.94%	15.9%	18.72%

Conclusions for a better primary health system

- No increase in consumer-controlled firms
- Nonprofit specification not useful as monitoring device
- Need for co-operatives to ensure better governance of PHOs