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 Means, 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 (Grossman and Hart, 1986)
A control continuum

Charity  Club  Cooperative  Listed company

No owners  Individual instruments  Trading instruments  Shareholding instruments

Defined owners
A control continuum in Primary Health Care

- Charity
- Iwi authorities
- Union clinics
- IPAs
- Private GPs

No owners

Individual instruments
Trading instruments
Shareholding instruments

Defined owners
Percentage of board members representing provider origins

<table>
<thead>
<tr>
<th></th>
<th>Consumer origin</th>
<th>Provider origin</th>
<th>Mixed origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>28.6%</td>
<td>46.1%</td>
<td>45.8%</td>
</tr>
<tr>
<td>Lowest</td>
<td>0</td>
<td>30%</td>
<td>14%</td>
</tr>
<tr>
<td>Highest</td>
<td>50%</td>
<td>75%</td>
<td>78%</td>
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</tbody>
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**Average equity/revenue 2007-2011**

<table>
<thead>
<tr>
<th></th>
<th>Consumer origin</th>
<th>Provider origin</th>
<th>Mixed origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>19.73%</td>
<td>4.69%</td>
<td>6.81%</td>
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<tr>
<td>Lowest</td>
<td>0.45%</td>
<td>0.16%</td>
<td>0</td>
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<tr>
<td>Highest</td>
<td>56.94%</td>
<td>15.9%</td>
<td>18.72%</td>
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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