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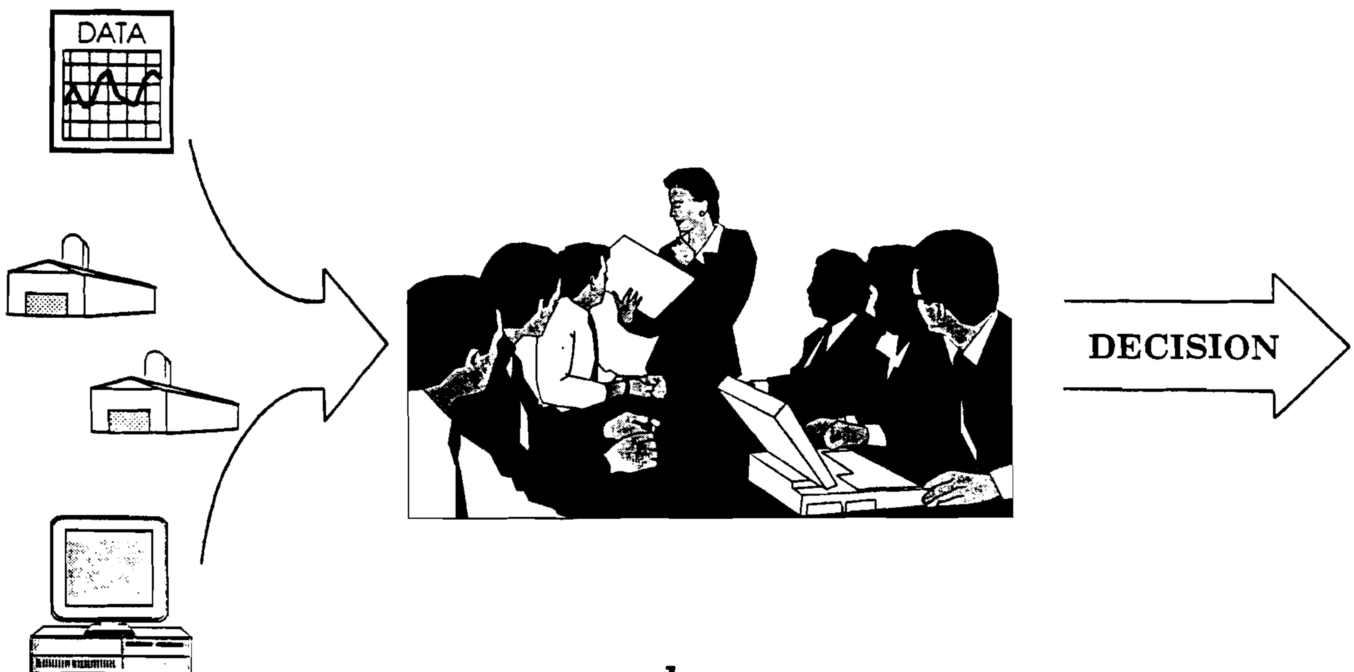
DECISION MAKING IN MEMBERSHIP ORGANIZATIONS:

A Study of Fourteen U.S. Cooperatives



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Abstract

Cooperatives are unique business organizations. Many of their unique characteristics have a direct impact on how decisions are arrived at as well as the ultimate decision made. This study reviews current literature on cooperatives and decision making. A decision making model is developed to arrive at a set of provisional hypotheses.

Fourteen U.S. agricultural cooperatives were studied through interviews with chief executive officers and chairpersons of the board of directors. The organizations in the sample were selected by volume of business, tenure of executives, successful performance and type of organization. Cooperatives in the sample were larger and on average better endowed with resources to focus on making informed decisions than the general population of agricultural cooperative in the U.S. Data collected from interviews were analyzed to identify key factors contributing to effective decision making and to test hypotheses.

An evaluation of hypotheses produced several conclusions. The ability of members to voice opinions plays a greater role in influencing economic decisions than voting. Agricultural cooperatives have a distinct corporate culture which strongly influences how decisions are made. Complex and diffuse performance measures make arriving at optimal decisions difficult. Boards tend to select alternatives directly benefiting members at the expense of the cooperative business organization. CEO's in cooperatives probably face a more diverse set of pressures than their counterparts in other types of firms. Decision making in cooperatives tends to be slow. An effective relationship between CEO and Chair is a key factor in successful decision making. Cooperatives tend to have a rather short planning horizon. Agricultural cooperatives tend to be risk averse.

Strategic advantages and disadvantages associated with decision making in cooperatives are developed. A set of management strategies aimed at exploiting the advantages and managing the disadvantages are presented.

The study is exploratory in nature involving a relatively small number of cooperatives. This initial work provides perspective on the unique characteristics of decision making in cooperatives and makes suggestions for further research in this area.

SECTION I: INTRODUCTION

Confronted with similar circumstances, would a cooperative make the same decisions as an investor oriented firm? Several reasons suggest that the outcome of cooperative decisions could be different.

Cooperatives are unique organizations. Many of their unique characteristics have a direct impact on decisions. What are those unique characteristics? Cooperatives are owned by their member customers. Sometimes those customers are suppliers and other times they are consumers of the goods and services of the firm. An important cooperative principle is "business at cost," which means organizations should return all or a significant portion of their net income to users on the basis of patronage. Cooperatives are democratically controlled by members. The vast majority of cooperative boards of directors are comprised only of members.

Although academics and practitioners alike generally agree that decision making in cooperatives results in different decision outcomes, few have analyzed the impact of what differences result from cooperative organization. Consequently, this study attempts to identify the unique characteristics of cooperative decision making and to provide insight into the factors which have an impact on the outcome of decisions.

Today's rapidly changing business environment, coupled with the dynamic situation facing farmer members, challenges agricultural cooperatives to make the best possible decision at the right time. Cooperatives which have developed the ability to effectively meet the competition head on, which are able to make needed adjustments quickly, and which have a clear vision of the future will likely return the highest level of benefits to members in the long run.

One often hears that younger members do not appreciate the origin and struggle of today's cooperative. It has been suggested that younger members are faced with a choice of loyalty versus economic return. Perhaps one of the primary determinants in a member's decision to support the cooperative is how well their organization makes decisions.

Objectives of the Study

The general purpose of this study is to determine and evaluate the factors that influence decision making in agricultural cooperatives. Specific objectives are:

1. To identify the unique characteristics of cooperative decision making,

2. To outline the essential ingredients of successful decision making by providing a list of key factors contributing to effective decision making,

3. To expand the theoretical base explaining cooperative decision making behavior.

4. To evaluate how agricultural cooperatives exploit the advantages and manage the disadvantages common to cooperative associations, and

5. To identify management strategies that can improve decision making within agricultural cooperatives.

SECTION II: ANALYSIS OF COOPERATIVE DECISION MAKING

The General Nature of Cooperative Decision Making

From an economic perspective, decision making within the cooperative firm involves focusing attention on a decision area, evaluating the payoffs from alternative courses of action which can be taken, estimating the degrees of risk and uncertainty for an alternative, and selecting the best choice available. The process sounds rather simple. However, complex economic and organizational factors come into play in a cooperative, such as the number of decision makers, the potential for differing levels of payoffs to different decision makers, as well as possible conflicting expectations for each decision made.

Cooperative management make many of the standard business decisions as their counterparts in any firm. At other times, cooperative management must handle decisions where the preferences of members directly affect the decision process and the outcome. Directors make decisions which will have a direct impact on their own economic well being and those of their farmer members. There are areas where decision making in a cooperative is both quite similar to other types of firms and yet distinctly different.

Cooperatives compete in the same economic environment as other types of firms. The management processes of reviewing information necessary to make decisions, predicting the impact of possible alternatives and evaluating the effects of selected options are common to all executives. The problem areas of control, strategic planning, personnel management and organizational effectiveness are common to all businesses.

On the other hand, cooperative decision making cannot be analyzed by using traditional economic or management theory exclusively. However, recent developments in economics, managerial science and organization theory hold promise for better understanding decision making in agricultural cooperatives.

Current Cooperative Economic Theory

Past research on agricultural cooperatives has been based on a somewhat narrow interpretation of the economic nature of cooperatives. Up until about thirty years ago, neoclassical microeconomics was not considered applicable to cooperative firms. In the 1960's Helmberger and Hoos (1962), using neoclassical price theory, produced a variant of the model of the profit-seeking firm. The profit maximization objective was replaced by maximizing net returns to the aggregate of individual firms of members. This theory improved the ability of analyzing cooperative price and output levels. However, Helmberger and Hoos recognized the limitations of their work and identified "The need for a more detailed knowledge of the actual decision-making processes within cooperative organizations"(p.280).

Little research was conducted on cooperative theory until the 1980's. Vitaliano (1983), adapting concepts from managerial theories of the firm and institutional economics, developed a theory of decision control based on the residual claims of members. The concept of residual claims had previously been used to analyze the behavior of investor-owned corporations. The simple profit maximization model had major limitations in explaining the behavior of complex firms. Vitaliano uses the residual claims approach to expand cooperative theory to explain: 1) differences in the preferences of subgroups of members, 2) member short term payoff horizons, and 3) effects of residual claims on decision control.

The theory of group choice provided an opportunity for better understanding cooperative decision making. Staatz (1987) used traditional collective choice theory as a means of incorporating the preferences of a heterogeneous membership. He suggested that many decisions in a cooperative are similar to nonzero-sum games. Using "cooperative game theory," he attempted to explain the partially conflicting preferences of members and analyze how various allocations of costs and benefits among the membership affect the payoffs to several potential coalitions within the cooperative.

A voting model utilizing imposed costs and benefits on different groups of members, as well as to the cooperative, was developed by Anderson (1987). This model was used to analyze the effects on voting given an uneven distribution of costs and benefits among members and between members and the cooperative firm. The influence of domination by membership and management are included in this analysis of cooperative decision making.

The Cooperative Organizational Life Cycle

Anderson has developed a framework for explaining management strategies of cooperatives as they move though distinct organizational phases referred to as a "cooperative life cycle."

Most cooperatives are started to deal with market problems. Sometimes these market problems are real: markets fail due to externalities, market power, or market inefficiencies. At other times the market works efficiently, but there is economic stress on producers due to changes in supply and demand. In both situations farmers have a tendency to form cooperatives.

Problem Oriented Phase

The point is that the initial strategies of cooperatives are defensive in nature. Cooperatives are started to deal with problems. By contrast, other businesses are organized to make money. Therefore, the first phase of most cooperatives is what one could refer to as the "Problem Oriented Phase." The focus is on the problems with which the organization was formed to solve. These problems are often associated with the loss of markets or unacceptable prices. This implies cooperatives often enter the product life cycle after it has peaked and begun to decline. In this stage the bottom line is survival, and it is often pursued in an atmosphere of crisis management. As a result, there is rarely a formal management strategy.

Many cooperatives do survive, primarily those that attempt to solve real market problems. But mere survival provides limited economic returns. As a result many survivors set their sights on the next stage, which can be termed the "Internally Oriented Phase."

Internally Oriented Phase

In this stage the cooperative emphasizes reducing costs, increasing operating efficiencies, and providing services to members. Economies of scale and countervailing market power are also important considerations. In addition, members may place a high priority on auxiliary services. However, marketing continues to receive little attention. The cooperative operates as a commodity-based business where price is the primary element of competition. Consequently, the most the cooperative can hope to earn is a competitive return with "normal" profits. The focus is on how the pie is divided rather than on expanding the size of the pie. This perspective is also exemplified by a tendency for cooperatives in this phase to rely as heavily on government programs as on the market for solutions to its economic problems.

Externally Oriented Phase

In the third phase, increased importance is attached to marketing, particularly value added marketing, but there is continued concern for operating efficiencies. This more balanced approach involves a more equal emphasis on the efficient allocation of resources and an aggressive marketing strategy. It is characterized by a philosophy that suggests the best way for a cooperative to serve its members is by first serving its customers. Included as customers are not only wholesalers, retailers and final consumers, but also suppliers, lenders, employees, and the communities in which the cooperative operates. It involves developing a cooperative corporate culture that emphasizes creating value rather than the mere redistribution of resources. Given these characteristics, one can call this the "Externally Oriented Phase."

Although the risks are higher, there are also opportunities for higher returns through new product development and the provision of unique services. To capture the benefits of value-added marketing, a cooperative in this phase will likely have a recognized and respected brand name.

There is nothing to suggest a given cooperative will proceed through all three phases. In fact, many cooperatives may languish in the same phase for years. Moreover, some cooperatives may even regress to an earlier phase. The phase is determined by the goals of the cooperative's leaders and the ability of its management to identify and implement an appropriate strategy to achieve those goals. In addition, one can probably further divide each phase into two parts: an early stage and a later stage. In the early stage the cooperative is searching for that "correct" strategy. In the later stage, the cooperative has found an appropriate strategy and exhibits greater internal stability.

The Sell-Out Phase

The fourth and final phase, involves selling the whole cooperative or divesting of a major portion of its value-added business. The reason can be that the cooperative has successfully mastered the externally oriented phase and members may find it difficult to turn down the price outside investors are offering to buy the business. In other instances, the cooperative may find it difficult to generate sufficient equity to maintain an aggressive marketing program, or it may have tried and failed to enter the next phase of the cooperative life cycle and decided to sell the remnants of its unsuccessful effort. Although there are a few U.S. examples of this happening (Schrader), this development is more prevalent aborad (Jacobson).

The point of this discussion is to suggest that cooperatives in different phases of their life cycle make different types of decisions. Attention is focused on problem areas of current concern. Cooperative preferences change as they move through the phases of the life cycle, resulting in different choices over time.

Limitations of Cooperative Theory

Cooperative theory continues to be challenged by the complex nature of the cooperative firm. Neoclassical economic models are limited in accounting for all the characteristics of actual business organizations, such as: goal conflicts, problems of control, organizational conflicts and expectations of key decision makers. The assumptions of a single organizational goal, perfect knowledge of alternative choices and certainty can be unrealistic for many cooperative firms.

Voting models have possible limitations as well. Voting is assumed to be the major form of decision control in cooperatives. Voters are assumed to know what all the possible outcomes are, as well as the associated economic effects of each outcome on a member's well being. A critical number of voters must participate in the election for the vote to be meaningful. The effect of repetitive votes on the same issue over time is difficult to measure. Although much has been learned about cooperative economic behavior, cooperative theory needs to continue to overcome previous limitations.

Broadening the Base of Cooperative Decision Making Theory

This study examines literature outside the field of agricultural economics to lay groundwork for broadening the knowledge of cooperative decision making and expanding cooperative economic theory by including research from other relevant disciplines. By examining research related to management science and the study of organizational effectiveness, we hope to better understand and explain the decision making behavior of cooperatives.

A Behavioral Theory of the Cooperative Firm

The behavioral theory of the firm which has emerged from the literature on economics and management science is based on optimizing behavior of coalitions within the firm to adequately satisfy each coalition's expectation and keep them in the organization, within the economic constraints of the resources available to the firm. Cyert and March (1963) developed a theory to overcome the limitations they saw in the neoclassical theory of the firm. Their criticism of neoclassical theory evolved out of questioning the basic motivational and cognitive assumptions of neoclassical theory. They argued profit maximization is only one of the goals of a firm, if a goal at all. Conventional concepts of the firm as having a single goal with the unified support of all decision makers can have little in common with the situation of actual business firms.

Behavioral theory outlines how coalitions within the firm arrive at determining a set of objectives through bargaining. Payments and demands are expressed in the form of a variety of money payments, perquisites, policies, personal treatments and commitments. Information about the "market" for payments is not obtained automatically but must be sought. Typically, participants in the organization do not seek information until stimulated to do so by some indication of failure.

The concept of "organizational slack" is developed. In conventional economic theory slack is zero, at least at equilibrium. In managerial economics, attention is ordinarily focused on only one form of slack, payments to owners. Cyert and March argue that neither view is accurate and that there are various forms of slack within an organization: stockholders are paid dividends in excess of those required to keep them in the coalition, excess wages are paid, etc. From time to time most participants in the organization receive slack payments. Some are more likely to receive them than others. Slack operates to stabilize the organization over time by absorbing a share of the potential variability in the firm's environment.

Organizational Effectiveness

Over the past thirty years, increased research attention has focused on the study of organizational effectiveness. Various disciplines, including economics, management science and human relations, have contributed to a better understanding of the effectiveness of organizations.

Organizational structure, corporate culture, and the role of leadership all have a significant effect on any organization's ability to make decisions. These influences on decision making are hard to isolate and measure but need to be addressed. Much of the research on investor-owned firms applies to cooperatives. The unique aspects of cooperative decision making will be discussed later in this report.

Peters and Waterman (1982) described how numerous attributes of organizational structure and goals influenced the organizational effectiveness of some of the best run companies in the United States. "Productivity through people," "simultaneous loose-tight properties," "bias for action," "hands on, value driven," and "stick to the knitting" are all proposed as effectiveness traits of successful business organizations.

The organization's value system or corporate culture creates the overall decision making environment for a company. The founders of a company establish the original set of values which are then updated and reevaluated over time. An individual company's values are greatly influenced by the national culture, the history of the firm, and industry practices.

Executive ability and management leadership have been analyzed as major factors in organizational effectiveness by Simon (1960) and Drucker (1964). Management philosophy and vision of the organization can play a key role in influencing decision making. The support which an organization provides decision makers for the adoption of technical and administrative innovations has an important bearing on organizational growth and survival.

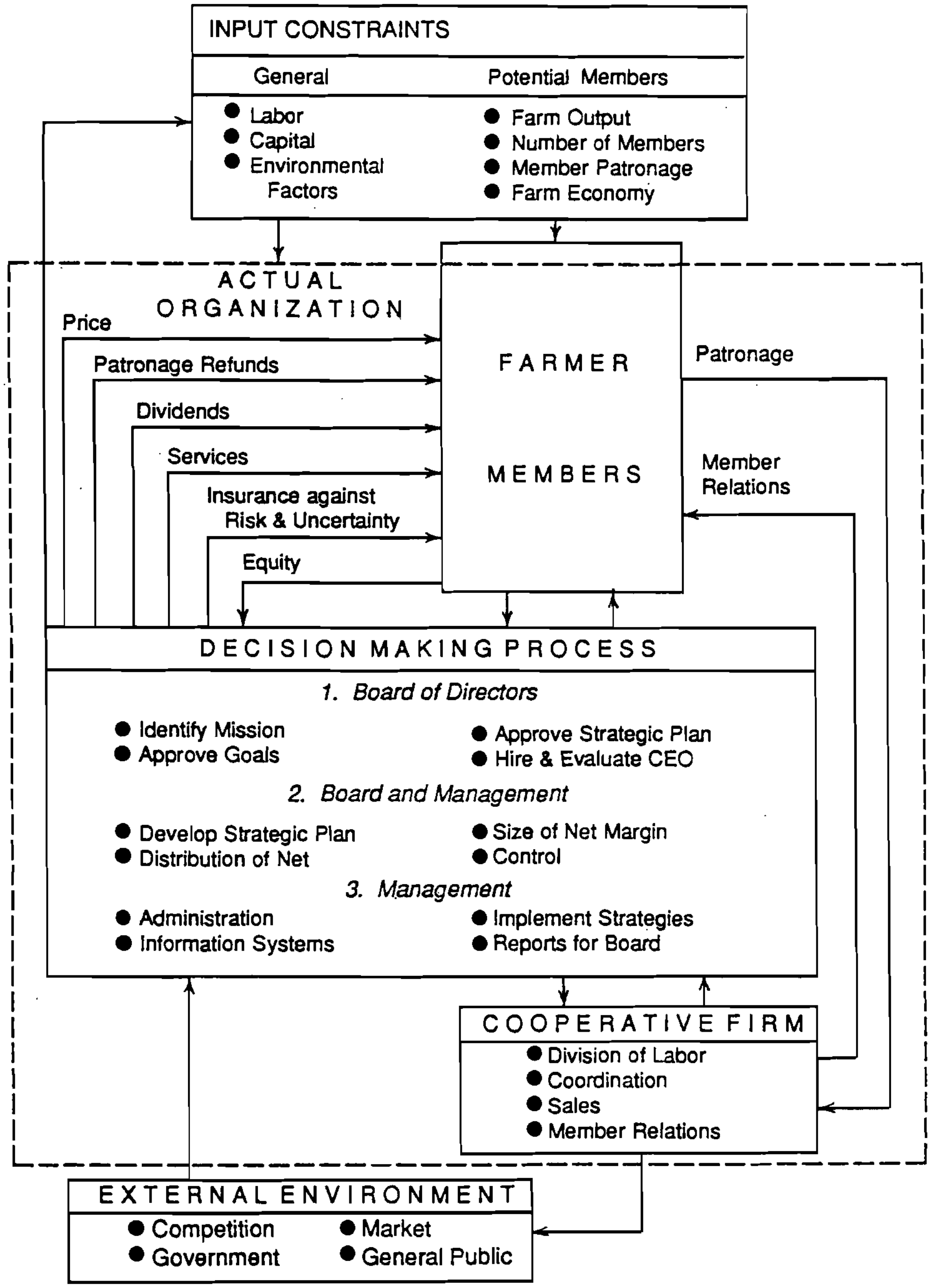
Simon has described an area of organizational decision making, which he considers to deserve more study, as "procedural rationality"(1977). Any firm must be able to focus its attention on a problem area before it can make a rational decision. Simon describes the firm's attention as a "scarce resource." The ability of a firm to focus on the most important issues at hand in a time of severe demands on its attention is an important factor in making the best decision.

Cooperative Organizational Effectiveness

The field of organizational effectiveness holds promise for better understanding cooperative decision making effectiveness. A diagram of a model for organizational effectiveness factors in cooperative organizations is presented in Figure 2.1.

The figure shows the actual cooperative organization, outlined in dashed lines, set within an overall environment. The cooperative is constrained on the input side, shown at the top of the figure, by the same constraints which any firm would have: labor, capital and environmental factors, but also with a set of constraints on the pool of potential and actual members. The organization must also interact within an external environment on the output side, shown at the bottom of the figure.

Figure 2.1 COOPERATIVE ORGANIZATIONAL EFFECTIVENESS FACTORS



The farmer members area straddles the actual organization because there is usually a flow of members in and out of the organization. The decision making process is outlined, including the key decision makers. This diagram identifies the organizational relationships between key stakeholders and decision makers in a cooperative as well as the economic signals members receive from the cooperative ie. price, patronage refunds, dividends, services, insurance against risk and uncertainty. If these signals present an attractive enough bundle of economic benefits, members respond with patronage and investment. The overall decision making process in a cooperative is outlined identifying broad areas of responsibilities for the board of directors, management as well as for both the board and management.

Cooperative organizational effectiveness relies on developing working relations between key stake holders both inside and outside the organization. Clear economic signals, rewards and performance measures must be developed to maintain a viable organization. The decision making process and factors affecting the relationships between stakeholders and decision makers will be further explored in this study.

The Decision Making Variables

The decision making process for a cooperative involves seven major elements: 1) the decision makers, 2) each having a certain preference for a particular course of action, 3) who after focusing attention on a problem area, 4) select a course of action, 5) to address a given problem, 6) within a given organizational context, by 7) means of a specified decision process. These seven variables operate in the decision making process of all types of firms, both cooperatives and investor owned firms. An investor owned firm is defined here as any type of business organization other than a cooperative, such as a privately held company or public corporation.

All of these decision variables in a cooperative can be distinctly different from a investor owned firm. Some of these variables have more unique factors in cooperatives, as is discussed later in this section. Preferences of decision makers are based on both cooperative goals and, in the case of directors, representation of member's preferences. Although the ability of a cooperative to focus attention on problem areas should be similar to any firm, this is not necessarily the case. Cooperatives may have a tendency to focus attention of member issues to the detriment of customer and market issues. The courses of action taken by cooperatives can differ from other types of firms. The organizational context of cooperatives has obvious differences, tied to the unique organizational structure of cooperatives. The decision making process in cooperatives involves more democratic control than most other types of firms.

Each of these seven variables has received varying levels of attention in the literature of numerous disciplines. Much of the research performed is applicable to both cooperatives and non-cooperatives. This study will concentrate on several areas which are unique to cooperatives and have received little or no attention from researchers.

Key Players in Cooperative Decision Making

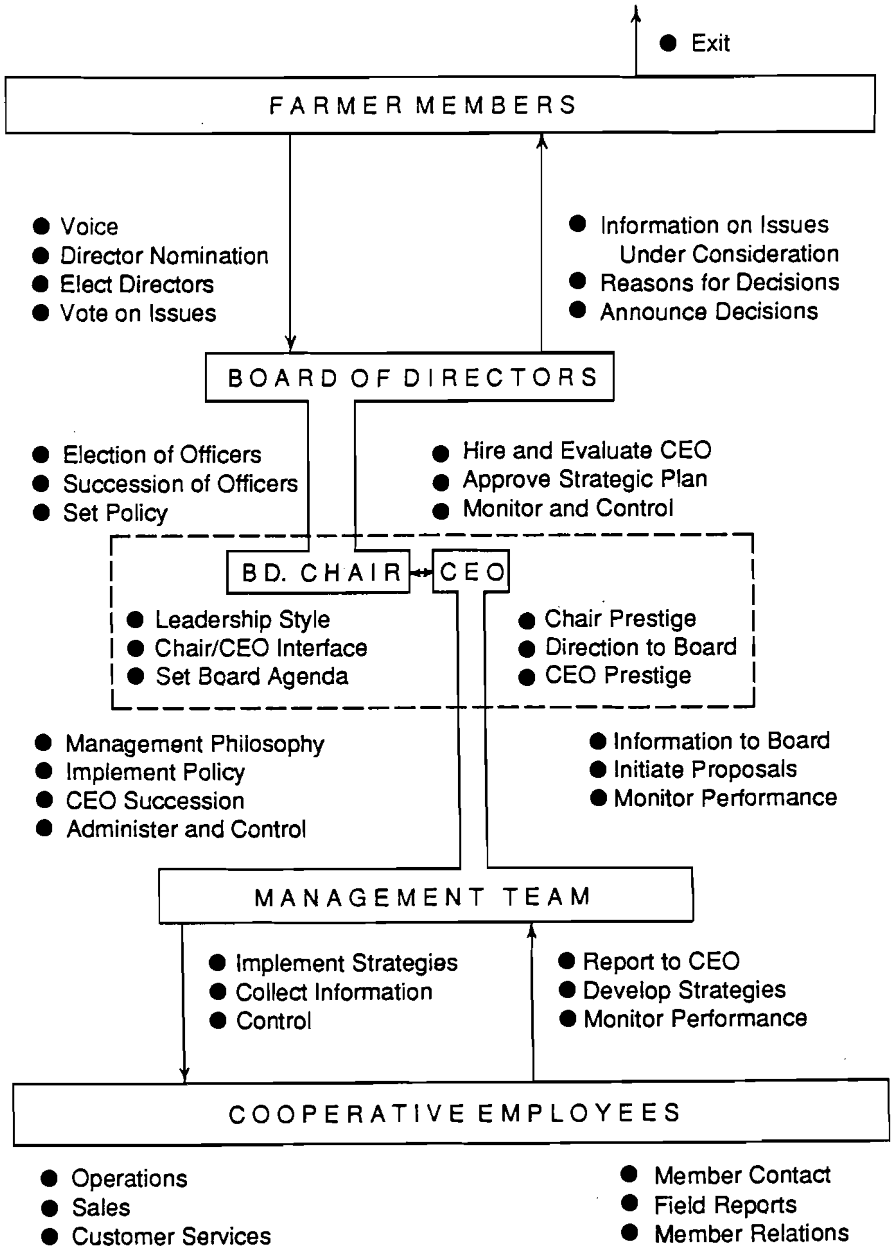
The first variable in the decision making system is the person or persons who make the decisions, directors, management, and members of cooperatives. Directors are generally farmers elected by fellow members to set policy, hire management, and approve a strategic plan for insuring the long term success of the cooperative. They have the same basic legal responsibilities as a director of any corporation. While cooperatives have outside or nonmember directors who sit on the board, the vast majority of directors are members. Consequently, they have a vested interest in the decisions they make. The vested interest is in terms of the impact of the decision on the cooperative, their own farm operations and the farm operations of the members who elect them.

For the purpose of this study, management refers to the chief executive officer (CEO) of the cooperative and those who report to the CEO. Management is responsible for the day to day operations of the business, providing adequate information to directors and members about the business, developing budgets and policy proposals for consideration by the board of directors. The CEO serves at the discretion of the board of directors.

Members have the authority to elect directors, vote on major issues, such as bylaw changes and resolutions, and have a voice in the decision making process. Members' influence on decisions can be expressed through relaying opinions to directors, management and staff, voting, or as an ultimate negative response, leaving the cooperative.

Figure 2.2 describes the organizational structure, major decision areas in a cooperative and the role of key decision makers in a cooperative. It is not an organizational chart, but rather an attempt to describe some of the primary relationships between decision makers, as well as to summarize the important decisions made in a cooperative.

Figure 2.2 ROLE OF KEY DECISION MAKERS



The top of the figure starts with members who have input on the nomination and selection of directors indicated by arrows on the left side. The right hand side of the chart indicates the flow of information on decisions to be made. The board of directors sets policy, hires and evaluates top management. The dotted box enclosing the Board Chair and C.E.O. indicates an intensive working relation of key decision makers in the organization.

Unique Characteristics of Cooperative Decision Making

There are many factors which give cooperatives unique decision making characteristics. Their origins, the cooperative principles they operate under, their organizational structure and their goals make cooperatives distinct from other types of firms and each other. Three unique characteristics will be discussed here which have a significant influence on cooperative decision making: 1) financial goals and performance measures, 2) cooperative leadership, and 3) cooperative corporate culture.

Performance Measures

Any discussion of decision making soon arrives at the question: How does a business firm measure the impact of a given decision? How are alternative options tested before being selected as the best choice? How are decisions evaluated after they have been implemented?

As we have already seen, the theory of the firm has limited application in measuring cooperative performance. The decision rules associated with neoclassical microeconomic theory have limited application to cooperatives. Profit maximization for the cooperative marketing firm may result in lower prices being paid to members.

Traditional cooperative economic theory also has limitations in providing a basis for measuring cooperative performance. Theoretical assumptions about the heterogeneous composition of members, the process of democratic control, the role of management in the decision process, the differential impact of decisions on various groups of members, and the role of voting can limit the ability of cooperative theory to explain cooperative performance.

Attempts have been made to have both cooperative management and members rank the importance of performance measures with mixed results (Ladd, 1982, and Schrader et al., 1985). One of the problems in trying to arrive at a single performance measure is that there are numerous groups within and outside the cooperative firm which have different expectations, preferences and measures of outcomes.

Financial Goals Systems

Research on decision making for investor-owned and privately held corporations has application to cooperative decision making. Donaldson and Lorsch (1983) present a classification of corporate financial goals based on management responding to key constituencies served by the firm. They list the constituencies as: product markets, capital markets, top management and the organization. The goals of the firm become a "complex network of financial goals, created by managements' need to respond to its product market and organization as well as to the capital market of lenders and stockholders" (p.48). Each group makes certain demands on the firm and has the potential to dominate the goals system.

The financial goals system concept can be applied to cooperatives. The constituencies and group goals are different but the model of a complex network of financial goals has merit; cooperatives certainly have a complex network of financial goals. There are goals in common with any type of firm, as well as goals particular to a cooperative firm. The overall goals system for a cooperative is influenced by input from constituencies and will change as various groups increase or decrease their dominance over the goals system. For example, cooperative member goals may dominate to the detriment of the organization during periods of poor prices in the industry. Or if the organization has had financial difficulties, the goals of lenders may dominate those of other constituencies. The overriding financial goal for a cooperative is a synthesis of the simultaneous goals of members, directors, management and any other key beneficiaries.

Cooperative Constituencies

A major difficulty in analyzing cooperative decision making is the fact that a cooperative serves numerous groups, each having it's own expectations and measures of how well they are served. To complicate matters even more, some of these groups may have competing or even conflicting demands on the cooperative. The management of a marketing cooperative may see the optimal strategy as increasing the amount of non-member product sold to improve overall earnings, whereas members may see this same strategy as conflicting with sales of their own products. The marketplace will have the final say on whether sales develop at all. So, effective cooperative decision making becomes a matter of balancing the preferences of the constituencies involved by developing a set of goals which meets the demands of all parties. This implies that a key characteristic of cooperative decision making is compromise.

Directors have the responsibility of balancing the demands of the various constituencies and approving a set of goals and objectives which keep all groups involved with the cooperative. The board of directors must assess the importance of giving priority to each group's goals, measuring their satisfaction and making adjustments to the goals system over time. Directors must rely heavily on management in obtaining accurate and timely information about the demands of constituencies, especially those related to marketing and providing capital. They have to put aside, at times, some of their expectations as a member and be more concerned over the long term survival of the firm.

The five major constituencies whose demands must be served by a cooperative are: members, management, product market, providers of capital and employees. Members' preferences tend to dominate other group demands, given that their demands are the basis for the cooperative's existence. The fulfillment of unmet member demands is the reason why the cooperative was created and continues to exist. Member's demands can change over time. The organizational life cycle section of this study discussed how demands may change over time. Members have both short term demands, being paid as the producer of raw products, and long term expectations as an owner/investor expecting a competitive return on their combined investment in the cooperative and own farm operation.

Management demands typically include the general expectations of the employees of the organization as well. Unless new management is brought in to change the strategic direction of the cooperative, management preferences in decision making tend to reflect those of current employees or the business organization. Other management demands may include the desire for growth, competitive compensation, organizational prerequisites, or merely a quiet management life.

The product market is where the marketing cooperative meets the competition. For a supply or service cooperative, this constituency would be their members and competition. This external constituency may be the most important of all. If the cooperative does not meet its customers' demands, it will not be around to worry about its other constituencies.

Another group includes those who provide capital to the cooperative, lenders and other capital markets the cooperative is able to participate in. For cooperatives which issue transferable stocks or bonds, it also would include those financial markets. Major lenders such as the Bank for Cooperatives would be included in this group.

The final group described is comprised of employees. Employee interests may overlap with management or in some cases include a separate set of expectations. One could identify other groups which influence cooperative goals, such as nonmembers benefiting from cooperative activities or legislators developing agricultural policy which affects cooperatives. Subgroups of members, such as large and small volume producers with differing preferences in certain situations, can also have a major impact on goal formation or reaction to having their needs unmet.

The most significant groups which will be considered here to have the greatest impact on the goals system and financial performance of the cooperative are: members, management, product markets, capital markets and employees. The hypothesized demands for each of these constituencies are summarized in Table 2.1.

Group Financial Goals

Each group has its own set of financial goals which overlap or are independent of other groups. The goals of members as investors in the cooperative closely match those of other capital providers. Members, management and employees have a mutual interest in competitive compensation, with members requiring competent management and management needing adequate salaries. How well a cooperative integrates each group's goals into the overall financial goals system of the organization becomes a useful measure of successful decision making.

TABLE 2.1 COOPERATIVE CONSTITUENCY DEMANDS

Constituency	Quantitative Goals	Qualitative Goals
Member Demands		
	Short Term:	Democratic Control
	Price paid for Products	Political Power
	Value of Services	Secure Market
	Patronage Refund	Market Information
	Long Term:	Pride in Cooperative
	Dividend Payout	Director Representation
	Return on Equity	Equitable Treatment
	Earnings Growth	
Management Demands		
	Absolute Firm Size	Approval of Board
	Growth of Sales/Assets	Image of Coop. in Industry
	Growth in Retained Earnings	Employee Loyalty
		Diversification
	Return on Assets	
	Reserves	
	Compensation/Perks	
Product Market Demands		
	Relative Growth	Innovation
	Price Leader	Quality Image
	Brand Names	Customer Services
	New Products	Promotion
	Rank in Industry	
	Advertising	
Capital Provider Demands		
	Return on Equity	Credit Rating
	Equity to Assets	Bond Rating
	Debt Capacity	
	Stock Earnings per share	
	Adequate Reserves	
Employee Demands		
	Wages	Job Security
	Employee Benefits	Empowerment

Group Dominance of Cooperative Goals

There is the potential for the goals of one group to dominate the overall goals system to the detriment of the cooperative as a whole. It is paradoxical that the dominance of members' goals could be a detriment to effective decision making in a cooperative. It indeed can be the case. Overemphasis on prices paid to members and a high short term financial return could limit long term cooperative financial performance.

Dominance by any group could constrain cooperative performance. Management goals of higher retained earnings or increased infusion of capital might limit the ability of the cooperative to meet member demands. The demands of the market could translate into lower prices to members, which over the long run could limit member support for the organization. Capital markets might require higher levels of member equity, conflicting with member investment goals.

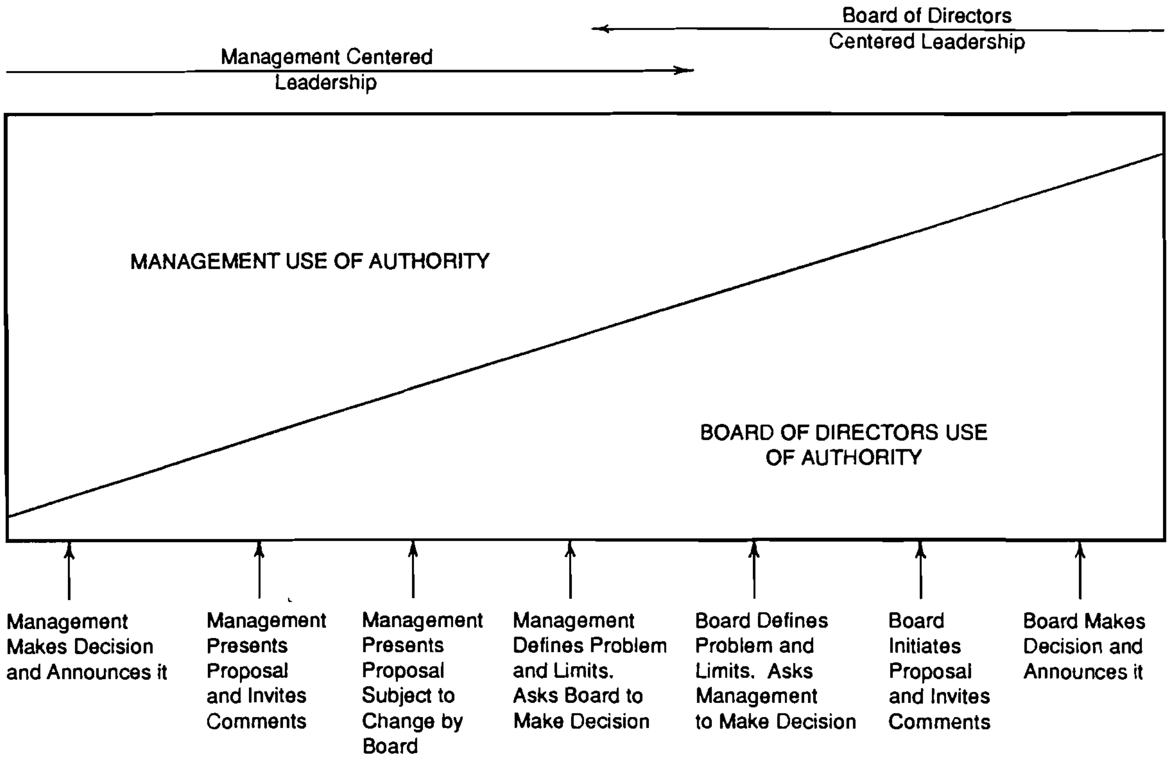
Cooperative Leadership

Any organization has leaders who play a key role in focusing attention on decisions which need to be made. Someone must initiate the process of looking at issues which require a decision, as well as build support in the organization for the choices to be made.

In a cooperative there needs to be a balance of leadership between the board of directors and management. The is particularly true because, unlike in many non-cooperative organizations, management is not a member of the board. Management, being in touch with the day to day operations, is in a position to discover issues which need attention. Management most often has the tools and information to analyze the impact of alternative choices available.

The board of directors has the ultimate responsibility to understand the ramifications of proposed alternatives and give final approval for major policies. Both board and management have the ability to initiate proposals for consideration. It operates as a system of checks and balances.

Figure 2.3 COOPERATIVE LEADERSHIP CONTINUUM*



* Adopted from Tannebaum and Schmidt.

There is the potential for either the board or management to dominate the decision making process and upset the balance in leadership which is required in a cooperative. The balance in leadership can be described as a continuum of leadership power which ranges from management domination to board domination as is indicated in Figure 2.3. The ideal point probably falls somewhere in the middle.

The cooperative CEO and Chair are the primary leaders in the cooperative. Their relationship is a unique one. In most cases the CEO is a professional manager who serves at the discretion of the board of directors. The Chair is first elected by members as a director and then by directors as Chair. The ability of the CEO and Chair to effectively take on their individual and shared leadership responsibilities is a key ingredient in successful cooperative decision making.

The issue of separating the responsibilities of the CEO from the chair of the board has received considerable attention is recent years (Patton and Baker, Business Week, Fortune, and Wall Street Journal), especially for public corporations. It is interesting to note that several authorities are recommending new board operations that resemble the traditional operation of cooperative boards. In addition to separating the responsibilities of CEO and chair, other recommendations include fewer management directors, directors having a significant stock commitment in the organization, non-management chairs of important committees, etc.

Cooperative Corporate Culture

Cooperatives in general have a distinct corporate culture from other types of firms. That culture certainly depends on each cooperative's individual organizational identity. But there are general traits of cooperative culture which can have a definite influence on decision making. As discussed previously, their origins can give cooperatives a defensive orientation which can become a management philosophy. But other facets of cooperative culture are worth noting.

The organization reflects the values of their members; farmer cooperatives reflect the values of farmers. Cooperatives are locally based and can have strong ties to a certain area or commodity. Products grown, services delivered or supplies sold are all based on the specific type of agriculture of that region. The pool of potential directors is limited to a relatively small geographic area. Directors share the common experience of farming as well as the values and history associated with a region and their cooperative.

Cooperatives tend to be very open businesses. Minutes of board meetings, regular reports, and annual reports are often shared with members and others. Information about the business is widely disseminated. Even the decision making process itself is open to the review of members. Directors report on a periodic basis to members on how and why decisions were made, as well as how well the cooperative is performing.

Cooperatives tend to conduct more activities on behalf of their agricultural industry than other types of firms. Cooperatives support many informational and legislative activities on behalf of both members and non-members, even though many of those activities are costly and non-members do not share in those costs. Consequently, many cooperative decisions often involve alternatives that result in free-rider problems.

Many cooperatives were started by strong, charismatic leaders who established a value system for the organization. Being started in difficult economic times can create a unique bond between members and management who were clearly working towards well defined common goals. Over time as the organization begins to achieve its initial goals there can be a tendency for less mutual agreement on goals, less appreciate of the initial economic hardships, greater team play and less need for an outspoken organizational leader.

All of these factors can distinguish cooperatives from other types of firms and create a different approach and orientation to making decisions. Little attention has been focused on investigating the influence of these factors on cooperative on decision making. We will be examining the actual decision making processes and outcomes for a group of U.S. agricultural cooperatives to explore the impact of some of these factors in these organizations.

Hypotheses

Based on the preceding literature review, discussion, and our general understanding of the organization and operation of cooperatives, the following hypotheses were developed:

1. Members influence the economic decisions made in a cooperative more through voicing opinions than by voting.

2. Cooperatives in general have a distinctive corporate culture which influences how decisions are made.

3. Diffuse measures of performance present difficulties in testing for optimal choices.

4. When considering decisions which have a differential impact on members, groups of members and the cooperative firm, the board is more likely to select the alternative which directly benefits members even at the expense of the economic interest of the cooperative.

5. Internal and external political issues tend to divert directors' attention from making decisions in the best economic interest of the cooperative.

6. Cooperative chief executive officers face a more diverse set of pressures in making decisions than their counterparts in other types of firms.

7. Cooperative decision making tends to be slow causing a competitive disadvantage.

8. The relationship between CEO and Chair is a unique one and is a key factor for successful cooperative decision making.

9. Cooperatives tend to over emphasize short term returns limiting the ability to focus on long term planning.

10. Cooperatives tend to be less willing to accept risk than other types of comparable firms in the same industry.

The procedures and methodology used to collect the data and to test the hypotheses are discussed in the next section.

Summary

This section discussed the conceptual framework of the study. Traditional cooperative economic theory and the theory of the firm were found to have limitations in understanding cooperative decision making. Cooperatives use a network of financial goals based on the needs of key constituencies to measure performance and test decisions.

Behavioral theory of the firm and organizational effectiveness theory are useful in analyzing decision making in cooperative firms. Cooperative organizational effectiveness factors were analyzed. A decision making model was developed identifying a set of variables associated with cooperative decision making. Cooperatives have various unique characteristics which influence decision making.

Ten hypotheses were developed from the conceptual framework provided. These hypotheses will be tested using the data collected. The next section describes the methodology used in this study.

SECTION III: METHODOLOGY

This section describes the procedures used to: select the cooperatives included in the study, collect data, and test the hypotheses outlined in Section II.

Sample Selection

A purposive sampling method was used rather than equal probability sampling. Several criteria were used for selecting the sample cooperatives: size, years in operation, tenure of CEO and Board Chair, organizational structure and general reputation were all considered.

Organizations were selected which had been operating successfully for more than fifteen years with a significant business volume for their industries. Cooperatives with CEO's and Board Chairs who had at least two years tenure were given priority in the hope that their observations would be based on experience in that position. A conscious effort was made to include cooperatives representative of organizations able to make decisions needed to stay competitive in their respective industries.

While not a random sample, the cooperatives included all utilize a decision making process indicative of the population of agricultural cooperatives. All had farmer members as their sole owners, a member elected board of directors, and management which served at the discretion of the board. While the organizations represented both federated and centralized cooperatives, no cooperatives with non-traditional organizational structures (e.g. joint ventures or parent-subsidiary structures) were included.

On the other hand, this sample would not be representative of most agricultural cooperatives in that these organizations tended to be larger, having more internal resources available to focus on analyzing alternatives. CEO's and chairs would tend to have more knowledge about and perhaps skills in making decisions. This group would also tend to have better developed strategic planning processes and make more use of outside consultants than the average cooperative organization in the U.S..

Type of Cooperatives Included

The study includes various types of agricultural cooperatives: supply, marketing and service organizations. Several of the cooperatives had both marketing and supply operations. Most of the marketing cooperatives were involved in selling a range of commodities and products.

The sample included fourteen organizations from across the United States. The cooperatives included in the study were:

Blue Anchor, Inc.

Blue Diamond Growers

Cabot Farmer's Cooperative Creamery

CalCot, Ltd.

Citrus World, Inc.

Dairylea Cooperative, Inc.

Eastern Artificial Insemination Cooperative, Inc.

Eastern Milk Producers Cooperative Assn. Inc.

GROWMARK, Inc.

Indiana Farm Bureau Cooperative (merged with Countrymark Cooperative, Inc. on September 1, 1991)

Northeast Dairy Herd Improvement Cooperative

Rice Growers Association of California

Seald-Sweet Growers, Inc.

Upstate Milk Cooperatives, Inc.

Twelve of the cooperatives were involved in marketing member products. Two marketing cooperatives were also involved in selling farm inputs. Two organizations were service cooperatives involved in dairy herd information and artificial insemination. A brief description of each cooperative (i.e. dollar volume, location, type) is provided in Appendix A.

Questionnaire Design

A draft of the questionnaire was developed and tested on the first two interviewees, who were asked to provide comments which were used in refining the questionnaire. As a result, several more questions were added. A separate set of questions was designed for chief executive officers (CEO's) as well as for board chairs. The outlines for both the CEO and board chair interviews are presented in Appendix B.

Procedures

The procedures used to implement the survey of cooperatives were the following:

1) A letter which explained the study was mailed to the chief executive officer in each of the cooperatives included in the sample. A telephone contact was made to set up an appointment for a personal interview with the CEO.

2) Interviews with the CEOs were conducted at the cooperatives' headquarters. Preceding the interview, each of the interviewees was given a copy of the interview outline. The questionnaire was used to direct the discussion of the questions on the outline. Several questions were not covered during some of the interviews due to a lack of time. Fourteen of the interviewed individuals were chief executive officers.

3) The chairs of the boards of eight cooperatives were also interviewed. An introductory letter explaining the purpose of the study was sent to chairs. Telephone contact was made to set up interview appointments. Most chairs were interviewed at the cooperative headquarters, although several were interviewed at their farms.

Summary

Fourteen cooperatives from across the United States were included in the study. Fourteen Chief Executive Officers and eight Chairs of the Board were interviewed using an interview questionnaire. The cooperative leaders who agreed to be interviewed were very generous with their time and provided additional materials when requested. The results of the interviews are presented in Sections IV and V.

SECTION IV. ANALYSIS OF INTERVIEW RESULTS

In this section, data obtained during the personal interviews are presented and discussed. The replies are summarized in table form where appropriate. A more detailed discussion of responses follows each table.

As previously indicated, different interview outlines were used for the Chief Executive Officers (CEO) and the Board Chairs. The questionnaires contained questions which were asked of both the CEO and Chair, as well as questions addressed only to individuals holding each position. Responses from CEO's and Chair's are identified where applicable.

Fourteen CEO's and eight Chair's were interviewed. Fewer Chairs were interviewed for the following reasons: a few Chairs were recently elected, two cooperatives had the same Chair, and a few Chairs had scheduling difficulties. Multiple responses were allowed for all questions.

Unique Aspects of Cooperative Decision Making

The first question asked of both CEO's and Chair's was: "When it comes to decision making, are cooperatives different from other types of firms? If so, how?" All 22 respondents answered in the affirmative. Numerous reasons were expressed for how cooperatives are different. Table 4.1 summarizes the various reasons.

TABLE 4.1 UNIQUE FACTORS IN COOPERATIVE DECISION MAKING
(22 responses)

Factor	Specifically Mentioned
Director composition and selection	41%
Organizational goals and measures of performance	32%
Relationship of member-owners to the firm	32%
Decisions have a direct impact on members-owners	28%
Dynamics between the board and management	18%

A variety of reasons were given with no one factor mentioned by a majority of respondents. The fact that directors are full time farmers, selected from the pool of members and elected by members, was cited most often. The following quotes indicate the specific nature of replies: "The skills needed by directors are different;

they need to have the political savvy of a senator along with the rest of the required skills." "Cooperative boards are less skilled in big business, less able to grasp the numbers and size up the business." A closely related issue is that farmer directors have a rather homogenous background, with their primary expertise being agricultural production.

The goals and measures of performance for a cooperative are different from other types of firms. "The goals are vague, as opposed to profit-making in a corporation or proprietorship." A supply cooperative CEO commented, "We have a strong customer orientation. But many IOF's have moved in that direction and now we may not be that different. We must be attuned to the customer/owner." "Our purpose is not providing dividends to stockholders, but services to members." The fact that individual members place a different value on a cooperative's various services presents a difficulty in trying to measure the value and costs of those services.

The relationship between member-owners and the firm creates a unique decision making environment for cooperative firms. As one marketing cooperative CEO put it, "We are owned by the source of supply." Cooperative members have more opportunities to participate in decision making, greater opportunity to observe and experience the impact of decisions, and proportionately more at stake than most stockholders of other types of firms. Consequently, "The member must buy into and support a major decision before it can be made and implemented."

Many cooperative decisions have a direct impact on member-owners. This fact can significantly affect making those decisions. Several respondents discussed factors affecting price decisions: "Cheap procurement can not be a policy for a (marketing) cooperative," "The pricing decision is tied into the long term," and "we are quicker to raise prices (to farmers) and slower to lower them."

The relationship between the board of directors and management was also mentioned as a difference. One CEO commented, "The steps in cooperative decision making are different: first, you must inform directors, second you must ask their permission to pursue a decision, and then make the decision." "The dynamics between the board and management are different. In other types of firms a variety of viewpoints are understood and expressed. There is more of a political dimension in cooperatives." "Directors are elected to represent members rather than because they are a major shareholder of the corporation. In a cooperative, an individual director may not hold that large a share in the business. This characteristic might discourage directors from assuming their business responsibilities as a director."

Several respondents mentioned that although there were unique aspects to cooperative decision making, there are many similarities among all types of firms. "In other firms, the board is not involved in pricing decisions. Otherwise, decision making is 90% the same." "Ownership is different; the economic decisions are the same."

"On the management side, cooperatives are not different from other types of businesses; we have no excuses because we are a cooperative."

Goals and Measures of Performance

Both the CEO's and Chair's were asked: "What is the primary goal of the cooperative?" Most responded with a set of simultaneous goals rather than a single primary goal. The goals are broken down into three categories: impact on members, the cooperative business, and marketing. Many of these goals overlap. The following table summarizes the responses.

TABLE 4.2 PRIMARY GOALS OF COOPERATIVES (22 Responses)

Goal	Mentioned by Percentage of Respondents
Members:	
Increase member's net profit	36%
Pay the highest cash prices	32%
Maximize long run returns to members	18%
Maintain agricultural industry in the area	9%
Equitable treatment of members	4%
Cooperative Business:	
Operate profitably	9%
Operate in an ethical manner	9%
Work for the good of the industry	4%
Marketing:	
Obtain premium prices	14%
Provide market security	4%
Successfully market member's products	4%

Most of the primary goals mentioned revolved around providing economic benefits to members. Marketing cooperatives emphasized prices paid to members for their products and obtaining premium prices in the marketplace for the cooperative products marketed. Service and supply cooperatives emphasized increasing members' net profits on their farm operations.

It should not be surprising that no one specific goal surfaces as the primary driving force of cooperatives. At the same time, it does illustrate that there are compromises between long term and short term goals as well as between goals that benefit members and those that benefit the organization. One may also assume that these goals change over time as a result of the financial health of members, the cooperative and the industry in which it operates.

Opinions varied on what role a cooperative should play within an industry. One chair mentioned as a goal, "We try to be good stewards of the industry, working for the good of the industry." A CEO had a different perspective on that goal: "We used to try to benefit all agriculture but we have found that we can no longer hold an umbrella over the whole industry."

The next question was asked of both CEO and Chair: "How do you measure performance?" The measures of performance are broken down into four categories: members, cooperative business, marketing, and finance. Measures are further categorized as quantitative and qualitative. Table 4.3 summarizes the performance measures mentioned.

A broad mix of performance measures were given. Most measures mentioned are common to other types of firms involved in similar businesses. Aside from the standard which measure members' well being, all other measures would be common to most types of firms. The most often mentioned gauges of performance were actual measures of economic benefits returned to members, and the perception of how well members thought the cooperative was doing.

One marketing cooperative CEO thought that non-member business provided a useful way of rating performance: "Profit on non-member business is a key measure for us. It is where we are directly competing with our toughest competitors: Coca-Cola, Procter and Gamble, and Beatrice, as well as adding to our financial strength." A chair said, "We are grappling with this issue right now. We do not want to use comparison with other cooperatives as a measure.

TABLE 4.3 COOPERATIVE PERFORMANCE MEASURES

Quantitative Measure	Qualitative Measure
(number of times mentioned)	
Members:	
Level of prices paid (5)	Member perception of cooperative performance (3)
Prices competition paid (3)	Member satisfaction (3)
Value of services (1)	Level of services provided (1)
Use of services (2)	Political power (2)
Compare member and nonmember profitability (1)	
Compare member and nonmember productivity (1)	
Cooperative Business:	
Level of earnings (4)	Human resource development (1)
Compare costs with industry averages (2)	Innovation (1)
Level of total sales (2)	Efficient use of resources (1)
Profits on nonmember business (1)	Avoid overlap (1)
Market level salaries (1)	Focus on key performance areas (1)
Inventory turnover (1)	Overall technological advance (1)
Volume of crop received (1)	
Marketing:	
Market share (1)	Successful implementation of strategies (1)
Export sales (1)	Met quality goals (1)
Time required to introduce product (1)	
Number of new products (2)	
Net return to members by product (1)	
Achieved sales goals by product (1)	
Finance:	
Level of member equity (2)	Credit rating (1)
Return on investment (3)	Protect farmers (1)
Return on assets employed (2)	
Cost of capital (2)	
Level of working capital (2)	

Perhaps return on assets is a better measure, but cooperatives tend to have a short run vision."

Again, it is interesting to note that no single performance measure even receives a majority recognition. Level of prices paid to members and level of earnings were the most common responses. This disparity of opinion suggests that a major contribution to improving the performance of cooperatives would be the development of effective quantitative measures for evaluating results.

Strategic Planning

Those interviewed were asked three questions about strategic planning: "Does the cooperative have a written strategic plan? What is the time horizon for the plan? What are the major components of the plan?" Tables 4.4 and 4.5 summarize the responses to those questions.

TABLE 4.4 COOPERATIVE STRATEGIC PLANNING (14 Cooperatives)

Question	Cooperatives
Have written plans:	
Yes	78%
No	22%
Planning horizon:	
1-3 years	57%
4-6 years	36%
Over 6	7%

Three out of the fourteen cooperatives did not have a written strategic plan. Those without written plans made these comments: "We do not have a written plan, but it is formulated and well understood in the organization;" "We have an agreed on unwritten plan;" and "We have annual objectives. The plan is simple: achieve the highest price."

One cooperative had a 10-15 year general plan and a detailed 5 year plan. Otherwise most firms had a planning horizon of between one and three years. There was an increased interest in planning among these cooperatives. Several comments were made about focusing more energy on planning: "We did not have a plan up to a few years ago. In the past the board simply reviewed a proposed budget, that was the extent of our planning. We now have developed a formal plan and mission statement;" "Since 1980 we have concentrated heavily on strategic planning. We brought in a consultant to help design a planning process."

The major components of cooperative strategic plans are listed in Table 4.5. Of the 11 cooperatives who had written plans, a majority had specific sections on the following areas: financial, marketing, plants and facilities, and human resources.

TABLE 4.5 COMPONENTS OF COOPERATIVE PLANS (11 Cooperatives)

Component	Specifically Mentioned
Financial	82%
Marketing	64%
Plants and Facilities	64%
Human Resources	54%
New Products	27%
Nonmember Business	18%

The development of management information systems creates new opportunities for collecting and analyzing data for planning. Several CEO's commented on their use of information systems: "We are creating a Management Information System, not necessarily to compare departments with each other, but to determine whether capital expenditures compliment the strategic direction of the cooperative;" "Our planning capability has greatly increased as our accounting of capital expenditures and budgeting skills have improved."

The various components of plans included detailed objectives: "We have goals for profits, earnings objectives, expense containment and capital investment;" "Our plan is market driven; after we understand our market, we establish the amount of human resources and capital needed. We have goals for new product development, distribution, and sales by product and geographic area."

Cooperative Corporate Culture

CEO's were asked, "Do cooperatives have a unique corporate culture?" All 12 CEO's responded in the affirmative. They were then asked why they thought the cooperative culture was different. CEO's discussed both general corporate culture issues for cooperatives and how they were working within their own individual organizational cultures.

Some of the differences noted were: "Our business is everybody's business. It is very open;" "Our culture reflects the values of members - integrity and honesty;" "We have a feeling of helping the entire industry more than other firms; we justify it by ending up getting our share of the improved situation."

A different environment for management and employees was mentioned by several CEO's: "I think cooperatives tend to hire more from within;" "Because farmers work from sunup to sundown, they expect that from cooperative employees. This is at a time when employees of most corporations are getting more leisure time;" "There is more of a family attitude, less emphasis on titles."

Several executives discussed their efforts to change the culture of their organizations: "We have made a calculated effort at changing our corporate culture as a part of our strategic plan. The change is from an autocratic, centralized approach to more decentralized decision making involving the management team and the board of directors;" "We have done a lot of work on culture here. We have tried to flatten out the organization by decentralizing decision making. We had to reduce overhead costs by 40%."

Democratic Control

Both board chair's and CEO's were asked to rank the effectiveness of ways which members can exert democratic control in a cooperative. The three general ways available to members for exerting control are: 1) by voting, 2) by voicing their opinion, and 3) by leaving the organization. Normally members have the opportunity to vote on directors and on other issues brought to the membership. Voice includes the expression of opinions to cooperative staff, management, and directors or other members at meetings. Exit is the ultimate negative expression of members and involves leaving the organization.

TABLE 4.6 WAYS MEMBERS EXERT DEMOCRATIC CONTROL
(19 Respondents)

Ways	Ranked 1st	Ranked 2nd	Ranked 3rd
		(Number)	
Voice	13	5	0
Vote	5	9	5
Exit	1	5	13

The effect of members expressing their opinions was ranked as the most effective method by a majority of respondents. Voting was next in importance with exit ranked last. This is an interesting result. Most cooperatives tend to emphasize the voting component of democratic control. While members are encouraged to attend meetings and express their opinions, few organizations have been successful at making members appreciate the impact that their opinions can have on management, directors and other members.

Many opportunities were mentioned for members to express their opinions: "Voice is effective because there are so many people listening: directors, member relations staff, fieldmen and management;" "We view voicing opinions and ongoing communication as a preventative measure. It can head off misunderstandings and discontent;" "We receive a lot of letters in longhand and respond to them all;" "We have a toll-free telephone number and get 10-15 calls a week, not only complaints but suggestions."

Voting is an option which members must use for it to be effective. Several respondents cited poor voter turnout and the small number of decisions which are voted on as a limitation to that option: "By the time an issue gets to a vote, management will not be in a position to be voted down;" and "Many members don't vote at all or don't know enough about what they are voting on."

Exit as an expression of member sentiment was mentioned as an effective way of drawing attention to a very serious problem: "When we had 100 members leaving each month, it caused the board to sit up and take notice." On the other hand, some members apparently use exit as an idle threat: "We have had members who threaten to leave every year for 20 years. But how do you solve a problem from outside the organization?"

The question was asked: "How do members exert influence on decision making?" Table 4.7 summarizes the responses to that question.

TABLE 4.7 MEMBER INFLUENCE ON DECISION MAKING
(20 Respondents)

Means of Influence	Specifically Mentioned
Through Directors	40%
Meetings	35%
Contact With Cooperative Management and Staff	30%
Annual Review of Marketing Contracts	15%

Again, the use of voice is cited as a key way for members to exert influence on decision making. Viewing directors as their representatives in making decisions, as well as the ability to contact both directors and staff with concerns were mentioned most. Meetings can provide opportunities for both vote and voice. In one marketing cooperative, the contact provided by contract renewal was mentioned as an important opportunity for influencing cooperative decisions.

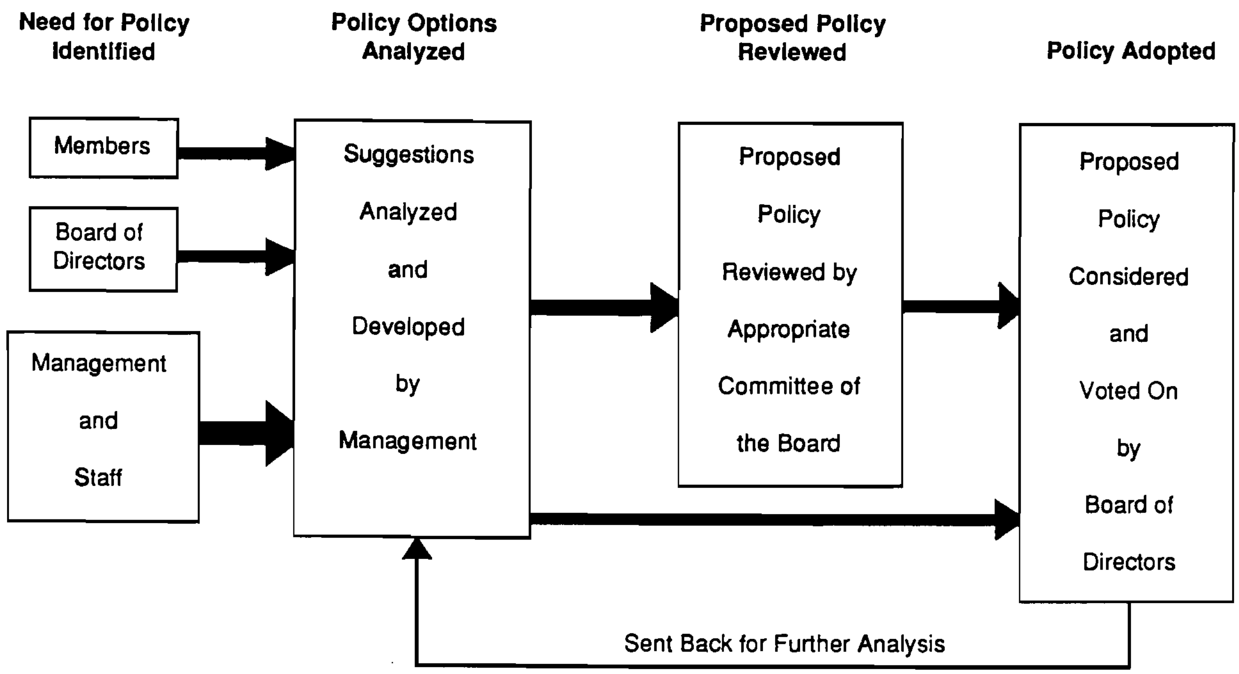
One chair had some criticism of the role members play: "Members are the weakest link in any cooperative. They do not take the time to see the strategic direction and then complain after the fact." A CEO commented, "So much of our performance rides on price that one can predict negative comments if the price is below member expectations."

The Decision Making Process

The question was asked of CEO's: "How are cooperative policies established? Who identifies the need, who develops a proposed change in policy?" The following diagram (Figure 4.1) summarizes the policy development process which a majority of respondents described.

Members, the board, management and staff all can identify a need for revising an existing policy or creating a new policy. However, it was indicated that most policy proposals are initiated by management and staff. The proposed policy is then analyzed by management for its impact on the cooperative and members. After management has had an opportunity to review the proposed policy it is passed on to an appropriate committee of the board or directly to the board. At that point, the board may decide that there is a need for further clarification on the proposed policy. In such cases, it is sent back to management for further refinement. The full board has the final authority to adopt policy.

Figure 4.1 POLICY DEVELOPMENT PROCESS



Although Figure 4.1 does not show any further input from members once the process has begun, in reality, members are typically consulted at various points along the way by management, committees or the board. Depending on an individual cooperative's bylaws, major policy changes may have to be approved by a vote of delegates or even members.

Most respondents observed that a majority of proposed policy changes are generated by management: "Usually management initiates policy changes; we are reticent to respond to proposed policy changes which come out of the sky;" "Management initiates 80% of policy, members and the board initiate the other 20%. We have a shot at reviewing those policies;" and "The need for most new policy is detected by management."

Several CEO's stressed the importance of informing members about major policy changes throughout this process: "Our Vice President of Member Relations and our Director of Planning and Research work closely with the policy committee in reviewing proposed policy changes," and "We also measure and evaluate the impact of policies after they are implemented." The process can be time consuming but several CEO's mentioned that implementation of a new policy goes more smoothly if members are involved along the way. "When a policy is finally approved, there are no surprises."

It is probably fair to say that most members feel that the board makes policy. Members tend to underestimate the role management plays in initiating changes in policy and in fine tuning proposed changes. To be technically correct, the board adopts policy and is rarely very active in the actual development of policy.

Timeliness in Arriving at a Decision

CEO's were asked whether they thought decision making was slow in a cooperative. A majority, eleven of fourteen, thought that it was. They were then asked to explain why. Responses can be broken down into several areas: the time needed to inform the board of directors about a decision, the time taken by the board to make decisions, and the time taken to gain support for a decision from members.

Numerous comments focused on the amount of time taken by boards to make decisions: "Our board meetings take more time. On average, cooperative boards are not as attuned to making business decisions as boards of other firms of comparable size;" "There is a necessary slowness due to the fiduciary responsibility of directors and the protection of members' investment."

The amount of time spent on informing the board was also cited: "Because of a limited base of information, lack of vision and being scared;" "In a cooperative, you need more research and information to make a decision."

The tendency of a board not to delegate authority can slow down decision making: "More routine decisions go to the board;" "The slowness is caused by differences of opinion on the board." The amount of time spent on keeping decision makers informed was mentioned, "We spend too much time reporting to ourselves"; "Because we are working from a defensive position, more time is required to keep people informed and involved."

Two follow up questions were asked when time permitted: "Was slowness in decision making always a disadvantage or was it an advantage?" and "Have you lost out on business opportunities because of slowness in decision making?"
Eleven CEO's responded. Nine thought that slowness was always a disadvantage and two thought it could be an advantage. "It is not a major disadvantage but it is definitely a disadvantage." One CEO who thought it was not a disadvantage commented, "Slowness is not all bad, we get good customer (member) information through the process."

Ten CEO's responded to the second question on lost opportunities. CEO's were split; five said no and five yes. "We have missed opportunities. We missed buying a property because of the time required to have the board review the decision. Every farmer knows how to buy land! Why should management decide when he's got a board full of experts?" One CEO who answered no mentioned, "We have missed opportunities, but not because we are a cooperative. They were missed by management."

The Avoidance of Risk

The question: "Are cooperatives less willing to accept risk?" was asked of the fourteen CEO's. Twelve responded yes and two no. CEO's were asked to explain their answers. General reasons given for not taking risks included: limited capital to invest in risky ventures, cooperatives have short term vision, lack of understanding of long term pay offs, lack of support from the board, and a conservative business philosophy.

Risk taking almost always implies an investment of additional capital or resources. Several CEO's cited a lack of capital: "It is a matter of being able to afford to take risks;" "Generally cooperatives are less willing to take risks because of limited access to capital."

A short term vision was cited: "Members have a short time horizon. They want a $100 today versus $125 at the end of the year;" and "Risk taking deviates from the norm; if you do not have a long range plan, there is a hesitancy to take on new ventures." A lack of understanding by the board of the possible benefits of risk taking was also expressed: "Directors lack the knowledge of the potential benefits of taking risks; they tend to say 'no' because they do not know how to assess the benefits;" and "It depends on how well the costs and benefits of taking the risk are articulated."

Management is more willing to take calculated risks with the support of the board. "Both the cooperative board and membership are highly critical of mistakes and less complimentary of achievements;" "It really depends on the level of support that the board gives management. We have a very loyal membership and a good track record which allows us to take more risks."

Business philosophy can determine a cooperative's willingness to take risks: "We tend to be conservative. The assets belong to the membership as opposed to risking your own assets;" "Cooperatives are less apt to develop and test new products. And so they are less willing to take the risk of introducing new products;" and "It is the farmer mentality to look for the break-even concept rather than going for the big buck."

The two CEO's who thought their cooperatives were as willing and able to take risks as other firms commented: "Risk in our case is measured differently. We effectively advance members a price for their product which is below market price. They take the risks. Also our risk is spread out over a number of years; as the market fluctuates the level of risk changes. We make the same business investments and assume the same level of risk as other firms in our industry;" "We certainly take risks. We have to compete with some large firms. You should not be in agriculture if you can't take risks. We do a better job in this area today. We can reduce risks through joint ventures and other ways."

The Board of Directors

Numerous questions were asked of the chairs about the role of the board of directors in cooperative decision making. This section reports the responses to those questions. Chairs were asked what members, directors and the CEO thought was the role of a director. CEO's were also asked what they thought members and directors perceived the role of director to be.

The role of director is not easily defined. That perceived role can change over time as a director serves on a board. The stage of the cooperative in its life cycle can be a determining factor of the director's role. The culture of the organization also affects the director's approach to decision making. Table 4.8 reflects some of the diversity of opinion on what the role of a director is or is perceived to be by members, directors themselves and the CEO.

Responses were extremely diverse. This in itself indicates an important issue facing cooperatives. If CEO's and board chair's can not agree on the perceived role of directors, one can only assume members will not have a well-defined concept of the duties and responsibilities of directors.

TABLE 4.8 PERCEPTIONS OF THE ROLE OF A DIRECTOR
(18 Respondents)

Members' View:

A watchdog (3)
Their representative (2)
To express members' views (2)
Evaluate members' needs and wants (1)
Play a bigger role in running business than directors actually do (2)
A member problem solver (1)
An investigative reporter (1)
Keep management in line (1)
Run the whole show (2)
As legislators (1)
Their link to control (1)

Directors' View:

Member of a team (1)
Fulfill legal responsibilities (1)
Report back to members (1)
Question direction and performance (1)
Do what members expect (1)
Assess impact of policy on members (1)
Serve as elected representative (2)
Should not be a representative of constituents (1)
Bring complaints of members to board (1)
Hire good management (1)
A watchdog (1)
Serious policy maker (2)

CEO's View:

As a sounding board (2)
As the members assembled (1)
Gauge of member sentiment (1)
As advisors (1)
Disseminators of information to members (1)
As members of a team (1)

Members tend to perceive the role of a director as adversarial, as a watchdog representing their individual needs. Directors, realizing the legal responsibilities of their position, tend to view their role more as policy maker and member of a team. The CEO views include those of an advisor and a sounding board.

A CEO referred to members' perception of directors as an adversary of management: "Members view the role of director as keeping management in line. Send John in there to straighten things out. This lack of trust is unfortunate. It can create a terrible perception to work under."

One board chair commented on the directors' view of their role: "In the past we viewed our role as being the 'Boss,' now it is more as a member of the team. One piece of the team; we set policy and authorize budgets."

One CEO had concern about the director's role in handling member complaints: "Directors often end up bringing member complaints to the board room. This really operates to the detriment of the cooperative. Some complaints are valid, but it is unproductive to bring all the complaints of the constituency to the table."

Selection of Directors

One of the more important decisions members make is the nomination and election of a fellow member to the board of directors. Several questions in the interviews were aimed at finding more information about the selection of directors.

The question was asked of board chairs, "What characteristics are members looking for in a director?" Table 4.9 summarizes the responses to that question.

Two chairs commented on the tendency for some members to look for the wrong characteristics: "Some members look for the quick tongue in the coffee shop when they should be looking for someone who is well educated and follows the trends in the industry;" "I am not sure they are looking for able administrators,

TABLE 4.9 CHARACTERISTICS MEMBERS LOOK FOR IN A DIRECTOR
(7 Respondents)

Characteristic	Specifically Mentioned
Is a successful farmer	57%
Knows members' products	43%
Good judgement	43%
Leadership	43%
Fiscally responsible	43%
Open minded	29%
Handles himself well in public	29%
Communicates well with members	29%
Supportive of the cooperative	14%

but someone with 'clout,' that is, an established farmer with a significant-sized operation who participates in major farm organizations."

Four chairs described changing member attitudes on what they are looking for in a director: "Those who don't oppose everything that stands for progress;" "It used to be that directors were elected for their ability to swim in the pond in the Capitol.

Today, that ability may be one of the least important, it would be better if they knew cooperative finance;" "A very successful farmer may be a maverick type and not able to stand in line with a decision he opposes but the rest of the board supports;" "It has changed from electing `good ole boys' to electing aggressive leadership."

Dynamics of Board Decision Making

Chairs were asked, "Are most board decisions unanimous?" Seven chairs responded. All agreed that most decisions of the board were unanimous. Four Chairs quantified the amount of unanimous votes with the following percentages of unanimous decisions: 90%, 85%, 80% and 75%. One veteran chair replied, "In 27 years, I cannot remember a close vote. We may start out with 10 diverse opinions but we end up with a majority. We allow enough time for discussion." Another chair commented, "A successful cooperative better not have a consistent large minority, it shouldn't happen. It hurts the cooperative."

Chairs were asked, "Are many board decisions the result of compromise?" Most chairs, six out of seven, agreed that their boards used compromise. "Some decisions involve compromise, not a lot. Compromise can be positive for the cooperative, to keep the organization going in the same direction;" "Most compromise is between management and the board, not among directors;" "Nobody compromises for the sake of compromise, we talk about the big picture." The one chair who did not see much compromise replied, "If you adequately discuss the proposal and you do not spring it on the board too fast, we can reach agreement."

Chairs were asked, "Are directors concerned about being reelected?" All seven agreed that for most directors, it was not a concern: "No, I have taken many positions which would get my head cut off at home. I think directors must have these priorities: 1) the cooperative, 2) members, and 3) me last;" "Our board has made many decisions which would get them unelected! These days directors are more concerned about future lawsuits than getting reelected;" "Some are but not a lot. Members will respect them for doing what is right;" "It does not matter to me. It is certainly not the money. It does not pay for the help at home when I am away."

The question was asked of both CEO's and chair's, "Are there politics within your board of directors?" There was a split response, with ten saying yes and nine no. The ten respondents who replied yes were asked what issues were most prone to politics. Table 4.10 summarizes the responses to that question.

TABLE 4.10 POLITICAL ISSUES ON A BOARD OF DIRECTORS
(10 Respondents)

Issue	Specifically Mentioned
Special interests of subgroups of members	60%
Election of officers	50%
Degree of board control over management	10%
Cooperative marketing philosophy	10%

The most frequently mentioned political issue was handling the special interests of subgroups of members within the cooperative. Various subgroups and potential conflicts were mentioned: "big versus small," "geographic areas," "different states," "financial haves and have nots," "outside organizations" and "producers of lesser crops and major crops which are marketed."

The election of officers was also mentioned as a possible political issue. One chair commented, "In the past our board was consumed with politics. Whoever was chair was 'king for a day.' He traveled first class, had his own credit cards. There were no fiscal controls."

Differing philosophies concerning director control of management was cited as an issue, "whether to keep a loose or tight hold on the CEO," or differing marketing philosophies among directors created problems for one organization. One CEO replied that cooperatives were not necessarily more prone to politics. "Anytime you have vested interests which must be protected there can be politics involved. Cooperatives are no different than any group with different personalities. I definitely draw a line between the board and employees. I would fire any employee who criticizes the performance of a director."

Both CEO's and Board chair's were asked, "Do members and directors provide unique input to issues and decisions that management has not already considered?" Eighteen out of twenty-one respondents (86%) agreed that members and directors do provide unique input.

CEO comments included: "Our board is involved in the business themselves. They come up with ideas on marketing, quality control and packaging;" "Yes, we get suggestions on member relations, market order changes, real estate;" "Yes, because many of our decisions affect them personally. From that perspective, they may ask a question which sheds new light on an issue;" "Yes, but its management's job to thoroughly research issues;" and "I learn a great deal from my board." The three that dissented were all CEO's. They replied: "Very seldom, all changes in operations or policy must have a management recommendation" and "Not generally."

Board of Directors Profile

A considerable amount of time and resources in any cooperative are spent on planning for and holding meetings of the board of directors. A series of questions in the interviews and board of directors survey (see Appendix C) were aimed at collecting data on the board of directors decision making process.

The board of directors survey which was completed for nine cooperatives included questions on the size of the board, frequency of meetings and the length of meetings. Table 4.11 summarizes survey data for those areas.

The number of directors on boards was concentrated in the eleven to fifteen member range. A majority of boards met ten to twelve times per year with none meeting more than twelve times per year. The length of board meetings ranged from two hours to two days, with one and a half days being the most common.

TABLE 4.11 BOARD SIZE, FREQUENCY OF MEETINGS AND LENGTH OF MEETINGS
(9 Cooperatives)

Board of Directors Profile	Number of Cooperatives
Number of Directors:	
11-12	4
13-15	4
over 15	1
Meetings per Year:	
6-7	1
8-9	2
10-11	2
12	4
Length of Meetings:	
2 hours	1
2-3 hours	1
1 day	2
1 1/2 days	4
2 days	1

The use of outside directors and consultants was examined in the survey. Table 4.12 summarizes the use of outside directors and consultants, as well as the issues for which consultants were used.

Although none of the cooperatives responding presently had outside directors, two were empowered to do so with one organization seeking an outside director to serve on the board. All but one cooperative made use of outside consultants. Several chairs wanted to make it clear that consultants were only brought in after management was consulted.

Director training activities were mentioned most frequently as an area where consultants were used. Training included work in planning, human resource management and CEO evaluation. The area of human resources included assistance in recruiting for open management positions. The financial area issues primarily involved work in restructuring pension funds. Most organizations employed legal counsel but other legal experts were sometimes brought in to address specific legal issues.

Meetings of boards of directors can be a learning experience for all involved. CEO's were asked to respond to the question, "At board meetings, do you feel directors learn more, management learns more or it is about equal as a learning experience?" Eleven CEO's had a unanimous response that directors learned more. CEO's had various comments: "I learn something at every meeting but the board learns more;" "It's our responsibility to tilt it more towards the director side. The degree of learning is not equal by design;" "One of the roles of a manager is to train directors. One of my accomplishments has been giving directors a better understanding of management;" "We live with the business day to day, they come

TABLE 4.12 OUTSIDE DIRECTORS AND CONSULTANTS FOR BOARD
(9 Cooperatives)

Use of Outside Directors and Consultants	Number of Cooperatives
Have Outside Directors:	
Yes	0
No	9
Board Use of Outside Consultants:	
Yes	8
No	1
Consulting Issues:	
Director training	5
Human resources	4

Legal	3
Finance	3
Marketing	2
Insurance	2
Communication	1
Plant feasibility	1

in once a month;" "We have some outstanding communicators on the staff. I have really tried to recruit people with those skills. I learn a lot from my staff as well as the board."

CEO's were asked "Do directors normally ask the type of questions necessary to effectively develop and control sound policies?" A majority, eleven out of twelve responding, thought that directors did ask the right questions. Comments included: "I think they do if there is an atmosphere of openness. Every comment is given proper credence and an answer;" "In general they do, but we have to provide a lot of information for them to be able to;" "Some do and some do not, we have a philosophy that puts all the information out on the table, 99% of the time directors will make the right decision;" "We encourage them to ask the right questions by providing the best data we can."

The dissenting CEO noted, "No, directors do not ask the right questions. They are too close to the trees. They do not see the big picture. It is almost scary. There is a high potential for abuse by management. There is a need for high ethical standards among cooperative management."

Both CEO's and chair's were asked, "Do you feel that board meetings make effective use of time?" The twenty-one respondents were split on this question. Many of the cooperatives had an ongoing effort by both chair's and CEO's to make more effective use of board meeting time. Comments by those interviewed shed some light on the problems involved.

One CEO noted that cooperative boards are not alone in this issue. "All boards get bogged down in trivia, here, at Exxon or Bank of America. Directors will end up discussing the color and make of the CEO's car." Another CEO questioned what is meant by effective use of time: "But then what is effective? If training directors is an effective use of time, yes. If you made a list of meeting activities and separated them into informational activities versus decisions, the decision side would be short and the informational activity side would be long."

Several chair's emphasized their responsibility for making efficient use of board time: "I take personal responsibility for keeping our discussions on track. But the last thing I want to do is adjourn with a director saying, 'I wish I could have pointed out this or that;'" "We make good use of the time; I am strict about sticking to the agenda."

One chair described how he and management were working at improving the use of board time. Over the last few years they have made the following changes in how their board operated.

In the Past:
- Little information was mailed out before meetings.
- Few comments in meetings from management on the "whys" of proposals.
- Too many numbers and details were used.
- There were extensive reports on lobbying activities and government policy.

The Improvements Made Were:
- Mailing out report summaries and information on proposals before meetings.
- Management explains and justifies proposals.
- Numbers are explained in laymen's terms.
- Effects of policies and economic outlook are summarized.
- The impact of decisions on cooperative net revenue are clearly explained.

The Role of the Board in Planning

Cooperative use of strategic planning has been previously discussed. Two questions were asked about the role of the board in planning and the use of the plan by the board after it was developed. Table 4.13 summarizes the responses regarding the role of the board in planning.

TABLE 4.13 ROLE OF THE BOARD IN PLANNING (8 Cooperatives)

Role	Specifically Mentioned
Board approves	100%
Board sets strategic direction	87%
Board helps to develop plan	75%

All eight of the cooperatives who had plans and responded required board approval of the long term strategic plan. The board set the overall strategic direction or mission for the cooperative in seven of these cooperatives. In other words, the board of directors of one cooperative was not directly involved in developing the plan but was responsible for setting the strategic direction, which management then used as a guide for strategic planning.

Most boards were directly involved in the planning process. The level of that involvement varied among cooperatives. Most of the cooperatives had special sessions of the board to review their strategic plans. Chairs commented: "We set the overall goals. We are involved in strategic planning, but not the tactical planning;" "Annually, we have a half day board session on planning. We emphasize the most important issues for the plan to address. We set priorities and give management parameters to operate within. We let management set the specific objectives;" "Each year the board meets two full days to review and update the five year plan. We review the past year to see if we are on track and make additions for the next year's plan."

A follow up question was asked: "How is the plan used?" Chairs made these comments: "We review the objectives spelled out in the plan at each monthly board meeting;" "It is an ongoing process. We review progress made on a monthly basis;" "We use the plan to monitor goals and objectives on a regular basis. We refer to them five or six times a year." Several Chairs mentioned that goal attainment was used as a measure of CEO performance, "We establish a set of well defined goals for the year through a process of negotiation with the CEO. There is a lot of negotiation in that process. We do not judge management solely on those goals, but they are used in the CEO evaluation."

The Board Chair

The chair of a cooperative board of directors is a key leader and shaper of decision making in the organization. Chairs devote a significant amount of their time making the organization successful. Chairs were asked to estimate the time they spent on cooperative affairs. Table 4.13 summarizes the number of days allocated each year to their work as board chairs.

TABLE 4.14 TIME SPENT ON COOPERATIVE AFFAIRS BY BOARD CHAIRS
(8 Cooperatives)

Number of Days per Year	Share of Chairs
15-35 days	50%
36-100 days	12%
100-200 days	12%
over 200 days	25%

While half of the eight chairs spent less than 35 days on cooperative business, two (25%) devoted over 200 days. It should be noted that several chairs included in this study also had major commitments to national organizations and regional cooperative projects, which dramatically increased their time devoted to cooperative affairs. These commitments are included in their time estimates.

Chairs were asked a series of questions on their relationship with the CEO and the board. Responses on CEO/board chairs relations are summarized in the last section of this chapter.

Chairs were asked: "What is the most likely source of conflict between a chair and their board?" Chairs comments included: "If the chair tried to make a decision without the board;" "The chair was too strong. It can be a problem if the chair has a large operation of his own;" and "Poor communication or lack of access."

Chairs provided some suggestions for avoiding problems: "There is a fine line in dominance. You must develop the confidence of the board. Make sure they are informed, that you communicate;" "You must communicate well with the whole board;" "I take the position that I can be replaced at any time. I am 100% for the best interests of the cooperative. If the time comes when the board feels I am not doing the job, someone else should do it;" "A chair must realize that you can have differences of opinion without conflict."

Chairs were asked where they get new ideas. The following comments reflect the general responses: "I rely on contacts throughout the industry. I try to anticipate what is coming down the road. I get ideas from individuals, other cooperatives and consultants as well as university staff. I travel 60,000 miles a year, that gives me a lot of time to think;" "We expect to get new ideas from management. I get ideas from the industry, both cooperative and noncooperative. From the top 10% of farmers. I also lead members in adopting new ideas, that is a role of the chair;" "On the business side, I don't spend a lot of time worrying about it. That is why we hire management. We have made a strong effort to disengage the board from the management side of the business."

The Chief Executive Officer

The chief executive officer of a cooperative is a pivotal decision maker and a key to successful cooperative performance. Do cooperative CEO's need any additional skills besides the technical skills or characteristics required by any CEO? CEO's were asked that question. Twelve out of thirteen CEO's responding thought that cooperative managers do need special skills. Table 4.15 summarizes what CEO's think some of those skills are.

The ability to understand member's farming operations and a concern for them was mentioned most, with a "thick skin" and "people skills" falling next. CEO's had the following comments: "We are different animals from CEO's of investor-owned firms or sole proprietors. We must be politically astute, responsive to human needs and know when to back off. Technically we're not much different. I am not sure that a 'hard driver type' CEO would survive in a cooperative;" "Humility; I must wear numerous hats: caretaker, leader and bridge between a couple of distinct cultures. Must be able to balance the expectations of members and a closeness to members;" "An appreciation of the structure and purpose of cooperatives, belief in cooperatives. An autocratic person would have a tough time."

TABLE 4.15 SKILLS NEEDED BY A COOPERATIVE CEO (14 Respondents)

Skills	Numbers of Responses
Concern for members	4
Thick skin	3
Better people skills	3
Humility	2
Planning ability	1
Politically astute	1
Better Communication skills	1
Higher ethical standards	1

The dissenting CEO thought, "I do not think that a cooperative CEO really needs any special skills. A good CEO for any firm needs people skills, technical skills and organizational skills."

A cooperative CEO must spend a certain amount of time on member relations and working with the board of directors on member issues. CEO's were asked to estimate the amount of time they spend on member relations. Table 4.16 summarizes the responses to that question.

TABLE 4.16 CEO TIME SPENT ON MEMBER RELATIONS (10 Respondents)

Share of Time	Share of CEO's
10 - 20%	40%
21 - 30%	40%
31 - 40%	20%

A majority of CEO's spent between ten and thirty percent of their time on member relations. A CEO of a marketing cooperative saw a problem with the amount of time spent on member relations, "We spend too much time. This is a problem for cooperatives. CEO's and top management must spend so much time holding the hands of members." A service cooperative CEO saw things differently, "I have to spend a lot of time at meetings and with members but it does not detract from my job."

CEO Evaluation

CEO's were asked whether they had a performance evaluation by the board of directors. Of the twelve cooperatives responding, eleven did. CEO's were asked to describe the evaluation process. The following comments were selected from their responses: "The executive committee interviews me using an outline of roughly thirty questions. It takes about five or six hours. The committee reports back to the board"; and "There are two steps in the process. First I meet with the board chair and we discuss the fulfillment of goals we have established. We also discuss my relationship with the rest of the board. The next step is a meeting with the executive committee. We repeat some of the discussion, with guidance from the chair and with more questions from the committee. The committee reports back to the full board."

Several CEO's had concern over the implementation of the evaluation process: "It is hard to measure my performance. I get a wide range of responses from the evaluation. I get some low ratings in areas where I thought I was doing a good job. It is hard on me not to have a satisfactory evaluation process. I am not good at asking for a raise. In a cooperative, if you do not ask for one, you do not get it. I would say that I am not satisfied with the evaluation;" and another commented, "I have a problem with the evaluation, it is friendly but amateurish."

Several CEO's described compensation plans which were linked to the cooperative's performance: "We have a comprehensive compensation program for management. Incentives are pegged to both the short term and long term performance of the cooperative. We use agreed-upon performance targets for annual profits, annual growth and return on equity;" and another commented, "We have incentives built into our annual plan. At the beginning of our fiscal year, we establish a compensation plan for the upcoming year. It then becomes a formal contract which our auditor and attorney signs off on. The board cannot pay more or less than what is spelled out in the plan."

CEO Performance

Thirteen CEO's were asked whether they agreed with this statement: "It is easier to be a poor CEO in a cooperative, and harder to be a good CEO." Ten agreed with that statement. Table 4.17 summarizes the reasons mentioned for agreeing.

The factors mentioned brought the following comments: "A cooperative CEO gets less advice from his board. He is not among shared risk takers. He must say, 'It's going to work.' There is more stress;" "If you take the criteria needed to

TABLE 4.17 FACTORS AFFECTING COOPERATIVE CEO PERFORMANCE
(13 Respondents)

Factor	Specifically Mentioned
Easier to be a Poor CEO:	
Vague measures of performance	30%
Less rigorous oversight by the board	23%
Low salary	8%
Harder to be a Good CEO:	
Must be good at both business and group decision making	23%
Less advice from the board	15%
More stress	8%

be good at both governance and business, there are few people with both qualities. I describe myself as being a good switch hitter;" "The cooperative system breeds incompetency, it boils down to economics. Cooperative managers are grossly underpaid and many are paid what they are worth;" "In a business environment which is clearly profit oriented, it is easier to weed out costly procedures and practices;" "Directors do not necessarily know when I am doing a poor job;" "In a cooperative, the CEO may be able to lay off problems on the board and say 'We did this together;'" and "You do not have the stock market or the financial press monitoring your performance."

One CEO agreed with the first part of the statement but not the second: "It is easier to be a poor CEO, the board may pick up the slack. The board may want a weak CEO. It is harder to measure performance in a cooperative. I am not sure about the second part. It's a tough world out there. I am not sure I could make it as a noncooperative CEO; profits fall and you're out."

Three CEO's did not agree with either part of the statement: "I would say it is a function of the board, totally. What is the board doing? A good board makes for a strong cooperative which makes for a good CEO;" "I would disagree, if the CEO is doing a good job and the cooperative has a bad year, it could be untenable. It's like being a coach, sometimes it only takes one bad year. That bad year could be caused by circumstances beyond your control."

CEO's were asked whether management must play an active role and assist the board in carrying out its control function. All twelve respondents answered yes. There were various explanations: "We have to tell directors what to look for. We have to provide the information on how to look as well as what to look for, what rocks to look under;" "We must provide all the information needed to evaluate the CEO. The board also receives a lot of information from our legal counsel, accountants and tax consultant;" "We want our directors to know and have the comfort that they are fulfilling their responsibilities. We use an internal auditing committee which reports twice a year. Our external auditing firm also reports twice a year. We bring in our primary lender and insurer to meet with the board as well."

Teamwork at the Top

The farmer/chair of the board of directors and the hired Chief Executive Officer are the principle decision makers in the cooperative. Both chair's and CEO's were asked, "What are the ingredients for a productive working relationship between the CEO and board chair?" Table 4.18 summarizes the factors mentioned by respondents.

TABLE 4.18 INGREDIENTS FOR A PRODUCTIVE CEO/BOARD CHAIR RELATIONSHIP (21 Respondents)

Factor	Specifically Mentioned
Trust, respect and mutual support	55%
Ability to communicate	45%
Clear understanding of roles	23%
Professional relation	14%
Integrity	14%
Access	4%

Mutual support, trust and respect were the most frequently mentioned ingredients for a productive relationship between the CEO and Chair: "As an appointed executive, it is important to have the backing of the elected chair;" "We should be on each other's side politically, have a common belief in the best interest of the organization;" "The relationship must be like an open book, both ways. I can tell him things he may not want to hear and he is open about his reactions. We can agree to disagree. At times, I may vote against his recommendations, but he knows I still support him;" "Do not waste time wondering what the other guy is doing;" and "One must have the ability to accept a difference of opinion without taking it personally."

The importance of good communication skills was emphasized: "The ability to listen. Being able to maintain contact with members and understand what's going on out in the country;" and "Good communication; cannot have any surprises."

A clear understanding of roles was also given priority by respondents: "Understand what each other is doing. If the chair is attending a meeting which might be relevant to business decisions, the CEO should accompany him."
and "Each individual must understand his job - both the boundaries of their position and where the overlap is." One chair replied, "Keep it strictly business, there should not be any implication of preferential treatment."

A related question was asked: "What factors most often inhibit a productive relationship?" Table 4.19 summarizes the responses to that question.

TABLE 4.19 FACTORS INHIBITING SUCCESSFUL RELATIONS BETWEEN CEO AND CHAIR (18 Respondents)

Factor	Specifically Mentioned
Lack of communication	33%
Violated role	28%
Questioned other's motives	17%
Unable to resolve issues	17%
Difference in management style	11%
CEO is slow in adopting policies	11%

Comments on the factors inhibiting the relationship included: "If either one violates their role or does not consult the other;" "If one thought that the other had a devious motive, it would be hard to work together;" "The inability to accept differences of opinion without taking it personally;" and "A major difference in philosophy or lack of communication." Three CEO's thought that two factors were especially a problem in cooperatives: "Cooperative directors tend to take things personally," and "Directors of investor-owned firms would be less likely to interfere in operations."

The question was asked of CEO's, "What is the frequency of your contact with your board chair?" Table 4.20 summarizes responses to that question.

TABLE 4.20 FREQUENCY OF CONTACT BETWEEN CEO AND CHAIR (12 Cooperatives)

Frequency	Specifically Mentioned
Daily	17%
Twice a week	17%
Weekly	33%
Twice a month	17%
Monthly	17%

The reported frequency of contact between CEO's and board chair's varied widely. Contact ranged from daily to monthly. It was mentioned that the degree of contact depends on the chair's personality and desire to be involved in cooperative affairs. Several board chairs had office space in the cooperative offices.

Having a Differential Impact on Members

In any firm there are particular types of decisions which are more difficult to make than others. In a cooperative, making a decision which impacts individual members or groups of members differently (some benefiting and some losing) presents a unique challenge for cooperative decision makers. CEO's were asked what they thought the outcome would be on a policy decision under four different types of hypothetical situations.

The first situation was one where a policy would benefit most members but have a significant negative impact on a small group of members. An example of this type of decision would be discontinuing operations of a plant serving a small group of members or eliminating a service only used by a small group of members.

The second situation was one where a policy would have a significant benefit to a small group of members but could have a small detrimental impact on a majority of members. An example of this type of decision would be offering special price concessions to large volume patrons.

The third situation was one where a policy would be detrimental to the financial condition of the cooperative but would have some beneficial effect on most members. An example of this type of decision would be subsidizing a service used by a majority of members.

The fourth situation was one where a policy would benefit the financial condition of the cooperative firm but would impose some extra costs on members. An example of this type of decision would be an increase in service charges, equity or dues. Table 4.21 summarizes the responses to this question for each of the four decisions.

TABLE 4.21 POLICY DECISIONS HAVING A DIFFERENTIAL IMPACT ON MEMBERS AND THE COOPERATIVE (11 Respondents)

Type of Decision	Would Be Approved	Would Not Be Approved
1. Benefit most members while having a significant negative impact on a small group of members.	100%	-
2. Significant benefit to a small group of members but have a small detrimental impact on a majority of members.	73%	27%
3. Benefit most members but have a detrimental impact on the financial condition of the cooperative.	54%	46%
4. Benefit the financial condition of the cooperative but impose extra cost on members.	73%	27%

Comments on decision type 1: "It depends on whether that small group has a director or directors on the board;" "We had a change in transportation charges which benefitted two-thirds of our members but had a negative impact on one-third. A small group can be dissatisfied, but the effect of the decision wears off;" "If we can prove that it is for the good of the total group over the long term, we will move ahead;" and "It would usually pass, it might result in a split vote." While the respondents realized this is not an easy decision, all indicated their boards were likely to make the appropriate decision.

Comments on decision type 2: "A weak board might have trouble with this one. The question is how would the cooperative be affected?;" "This would be a tougher one, we might have a membership meeting to discuss it;" "We recently changed our dues structure for larger volume members. It was approved; we emphasized the long term benefits of serving large members fairly. It was a matter of being equitable versus equal;" and "The board would have trouble with this. An example would be pooling transportation costs. We can show the actual costs of transportation, but members do not believe them. It is a matter of perceived costs versus actual costs." Almost three-quarters of the CEO's thought their boards would make the right decision, there is a clear indication that some boards would make a suboptimal decision.

Comments on decision type 3: "This type of decision can go both ways. We recently revolved some stock which ultimately hurt the cooperative but benefitted most members;" "The board would vote no but the members would vote yes;" "This is one we wrestle with. This situation can be easy to rationalize. I have seen our board go both ways. Some directors are more inclined to do it;" "It really depends on the farm economy. It is very hard to raise fees when farmers are hurting. Members want their cooperative to hurt too;" and "There was a time when this was a service organization with services subsidized by the cooperative. But we have changed, we might be slow to act on this one." The CEOs' reply to this situation indicates the decision could go either way.

Comments on decision type 4: "Cooperative boards can have a problem here, they can be too close to member problems at the expense of the cooperative;" "Our board has real guts, they recently voted to retain 30% of earnings which is the highest level in 15 years;" "If it is an area covered in our strategic plan, it is easier for the board to do what they said they would do;" "Our board gives high priority to the financial condition of the cooperative;" "We would make this decision after input from members. Under the current economic environment on the farm, we would not consider it. We are going to increase member equity, but members have known about it for a long time;" "It really depends on the extent of the benefits to the cooperative. If we are shooting for 35% member equity financing and we are at 15%, that is one thing. If we are already at 32% it is another;" "Our board members are businessmen. If the economic benefits were there, they would approve it;" "This decision must be made in light of what are the economic benefits to the cooperative. This may be one of the hardest decisions for management to sell to the board. Management may feel that 20% reserves are what is required, where the board might feel that 5% is good enough. They would ask, 'Why is the coop sitting on all that cash? I'm not sitting on a million dollars';" and "We do not normally make decisions like this. Raising prices for services is always a tough one. It is hard to estimate what percentage of increased revenue will result in improved projected margins." Again, about three-quarters of the CEO's felt their boards would approve such a decision.

CEO's were asked the question, "Does your cooperative have any formal method of analyzing the impact of a decision on different groups of members?" CEO's were split, with six reporting they had a formal method to measure the differential impact of a decision, while the other six answered no. Selected comments on this question: "We can produce very good data to help think through an issue. An example would be member equity. We can perform a marginal analysis on each dollar of member stock retired. We have a Ph.D in tax and finance working on analyzing equity issues;" "We collect detailed data on members concerning product volume, quality, transportation costs, seasonality of production and geographic location. We have data on computer which can be used to construct different scenarios for different groups of members. We can look at the median, mean or percentile or geographic cluster or groups of members;" and "We have a formal method of evaluating impacts on various groups of members. We have a data base on all members both on a mainframe and micro computers. We can quantify the effects of various policy issues on a group of members, say the largest 20% of producers."

One CEO who reported not having a formal method of analysis replied, "We have a data base on size, volume, and pricing activity for each commodity and member. But I would not say we have a formal method of evaluating policy decisions using that data."

Summary

Using an interview outline, a series of questions were asked of both CEO's and Chair's as well as questions specific to individual roles. A mix of open ended questions, yes or no questions, responses to possible scenarios, and descriptive questions were used to collect data for this study. Table 4.22 summarizes the responses to yes or no questions.

Section IV has presented responses to the interview questions. Section V will evaluate the hypotheses described in Section II based on the data collected.

TABLE 4.22 SUMMARY OF RESPONSES TO YES OR NO QUESTIONS

Question	Number of Respondents	Responses Yes	No
Is decision making different from that of other firms?	22	22	0
Do you have a written strategic plan?	14	11	3
Do cooperatives have a unique corporate culture?	12	12	0
Are cooperatives less willing to accept risk?	14	12	2
Is cooperative decision making slow?	14	11	3
Do directors normally ask the type of questions necessary to effectively develop sound policies and exert control?	11	10	1
Do directors and members provide unique input to issues and decisions that management has not already considered?	14	11	3
Do board meetings make effective use of time?	13	6	7
Does management need to play a more active role in assisting the board in carrying out its control function?	13	13	0
Is there a lot of politics within a board of directors?	19	9	10
Does being a cooperative CEO requires special skills?	13	12	1
Do you have a formal plan for CEO succession?	12	3	9
Does the CEO have a performance review?	11	10	1
Are directors generally sensitive to member concerns?	6	6	0
Are directors concerned about being reelected?	7	0	7
Are most board decisions unanimous?	7	6	1
Are many board decisions the result of compromise?	7	6	1
Does the board review the effectiveness of it's operation?	7	5	2

SECTION V: SUMMARY AND CONCLUSIONS

The interview questions were designed to test the hypotheses generated from the conceptual framework discussed in Chapter II. Hence, an evaluation of the hypotheses provides an effective way of summarizing the interview results.

Evaluation of Hypotheses

Acceptance or rejection of the hypotheses is based on the interview data presented in Section IV. This exercise does not represent a statistical test of the hypotheses, but rather a subjective determination by the authors. However, every attempt was made to base this determination on an objective evaluation of the qualitative data collected.

The First Hypothesis: Members influence the economic decisions made in a cooperative more through voicing opinions than by voting. This hypothesis was supported by the answers to the question: "How would you rank the importance of these three methods of democratic control: voice, vote, and exit?"

Most interviewees ranked voice over vote as the most effective means of member influence over cooperative economic decisions. Members simply do not vote on many decisions. When they do vote, low turnout can often limit the significance of the vote. In addition, members have numerous opportunities to provide input into the decision making process by expressing their opinions to cooperative management, directors and even employees.

Two potential problems are evident as a result of this finding. First, many leaders emphasize that a major advantage of cooperatives is the opportunity for members to exercise democratic control over their organizations. Voting has often been touted as the primary means of exerting control. In fact, organizations often stress the cooperative principle of "one member, one vote."

This study has found that for members, voicing their opinion can be more influential than voting. Therefore, in communicating with members, cooperatives should consider the importance of member opinion on decision making and put voting into perspective. By over-emphasizing voting, members may feel that they have less influence on cooperatives than they really have.

The second problem associated with this conclusion is that it is difficult for members to know if cooperative leaders are listening and how well their opinions affect decision making. Although members may have the ear of a director or CEO, members can rarely see the impact that their comments have on cooperative decisions. Will the cooperative leader pursue the issue, provide the comment as input into the discussion on a decision or will a decision be altered as a result? This characterization is particularly true when input from some members may be naive or irrelevant. Moreover, even productive member input may have only a marginal impact on the fine tuning of a decision or its implementation. Except for writing the CEO or a director and receiving a written reply, cooperatives do not have an effective mechanism to let members know their input has been considered.

Consequently, cooperatives should give serious consideration to finding new ways of signaling members that they are listening and incorporating their input into decisions. In addition, more thought should be given to the type of and methods for obtaining member input that improves the quality of information and lets members know their voice is being heard.

The Second Hypothesis: Cooperatives have a distinct corporate culture which influences how decisions are made. This hypothesis was supported by the answers to the question: "Do cooperatives have a unique corporate culture?"

Interviewees unanimously agreed that cooperatives do have a unique corporate culture. It is a distinct culture that influences the environment in which decisions are made and the way decisions are implemented. Members' values and beliefs are reflected in the cooperative culture. A historic value of helping all farmers within the industry has been questioned by some of the organizations included in the study. In addition, the democratic principle of cooperatives has caused misunderstanding and conflict over whether an organization should treat members equally or equitably.

The value system can preclude consideration of certain options or make a decision more difficult in cooperatives. Non-member business would be an example of such an issue. A cooperative may not objectively consider alternatives open to other types of firms. Merger or joint ventures with firms considered to be a historic adversary may not be open for discussion even though there could be economic benefits. A cooperative may continue policies that treat all members equally rather than exploring equitable systems which more accurately allocate costs associated with serving particular members or groups of members.

Some of the values receiving particular emphasis in a cooperative include: openness, fairness, and equitability. There is no doubt these values impose unique constraints on cooperatives.

Although no specific question was asked concerning this issue, the replies given suggest that caution has a strong, over riding influence on a cooperative's approach to decision making. Some suggested that management or the board are more reluctant to deal with controversial issues, analyze them thoroughly, take longer to make such decisions, and initiate an extensive information campaign before or after a sensitive decision is made. In fact, in many cases, the propensity towards caution expresses itself by a defensive attitude, conservative strategies, and a high aversion towards risk.

The Third Hypothesis: Diffuse measures of performance present difficulties in arriving at optimal choices. This hypothesis is supported by the answers to the questions: "What is the primary goal of your cooperative and how do you measure performance?" Cooperatives in this study had no commonly accepted measure of performance. Most cooperatives had a set of several measures with no single primary measure superseding the rest. Some organizations utilized measures which potentially conflicted. Numerous cooperatives described their procedures for evaluating choices to be made. Federated cooperatives adopted tests to evaluate the effects of decisions on the regional, local and individual farmer members. Centralized cooperatives developed tests to evaluate the impact of decisions on the cooperative, subgroups of members and individual members.

The lack of uniform well-defined performance measures and the inability to compare performance with competitors creates a problem for cooperative decision makers. It can be more difficult to evaluate options when making decisions, as well as to determine the effectiveness of the choices made in a cooperative.

The Fourth Hypothesis: When considering decisions which have a differential impact on members, groups of members and the cooperative firm, the board is more likely to select an alternative which directly benefits members, even at the expense of the economic interests of the cooperative. This hypothesis is not supported by the answers to the two hypothetical situations: "What is the usual outcome of these types of decisions: a policy would be detrimental to the financial condition of the cooperative but would have a beneficial effect on members, and a policy that would benefit the financial condition of the cooperative firm but impose some extra costs on members."

Interview responses were somewhat inconclusive in regard to this hypothesis. Respondents were almost evenly divided on the first situation, and three-quarters indicated the second decision would be accepted. It is difficult to evaluate subjective responses to hypothetical situations. Furthermore, only CEOs were asked this question. Chairs might have provided additional insight into the question. None the less, this issue deserves further attention.

The Fifth Hypothesis: Internal and external political issues tend to divert directors' attention from making decisions in the best economic interest of the cooperative. This hypothesis was deemed inconclusive based on answers to two questions: "Is there a lot of 'politics' within a board of directors?," and "What issues are most prone to 'politics'?" The term "politics" as used in this context has a negative connotation. Being prone to politics infers that optimal approaches to decision making are short circuited by attempts at personal political gain or inequitable gains by special interest groups within a cooperative.

Responses were split on whether a high degree of politics existed within a cooperative board. The mere process of electing directors and officers makes cooperatives inherently political. However, it may not be politically astute for CEO's and Chair's to admit the existence of politics in their organizations.

It is interesting to note what issues were mentioned as being prone to politics. The two most commonly mentioned issues were the special interests of subgroups of members and the election of officers. Also mentioned, were the degree of board control over management and the cooperative's marketing philosophy. It is difficult to measure what the effects of politics are on decision making. If the election of officers is contingent more on political clout than on effective leadership, that could have a bearing on insuring the quality of board leadership. In addition, special interest groups within the cooperative could deter the board from making decisions in the best interest of the cooperative as a whole.

Lack of well defined performance objectives may cloud the issue of what really is "in the best interest of the cooperative." Certainly when one or more directors, representing a particular interest group, oppose the majority of the board they do so feeling they are acting in the best interest of the cooperative.

Finally it is the authors' observation that "board politics" come and go depending on the issues and individuals involved. A board can remain apolitical for long periods of time until a particular issue arises that splits the board. That issue can then have a spill over effect on other issues that would otherwise be apolitical for a period of time. Therefore, it is not surprising that some respondents felt there was politics on their boards and others did not.

The major disadvantage of board politics is disunity of vision, direction or how to accomplish the cooperative's objectives. Politics can also divert the boards attention from addressing more pressing issues. Often such divergence in opinion slows down the decision making and implementation process, and retards the ability of an organization's to achieve its objectives.

<u>The Sixth Hypothesis</u>: <u>Cooperative chief executive officers face a more diverse set of pressures in making decisions than their counterparts in other types of firms</u>. The hypothesis is supported by answers to the questions: "In addition to the technical qualifications, do you feel being a cooperative CEO requires any special skills or characteristics?" and "It has been said that it is easier to be a poor CEO and more difficult to be a good CEO in a cooperative compared to other types of firms. Do you agree or disagree?"

Cooperative CEOs must function under a wider range of pressures. The owners of the firm are also its users or customers. A significant amount of the CEO's time must be spent on member and director relations issues, allowing less time for running the business. Many executives reported spending up to thirty percent of their time on these activities. In addition, several cooperatives have monthly board meetings averaging two days in length. Considerable management time is devoted to preparing for and following up on board meetings.

The diffuse measures of cooperative performance make evaluating the CEO's performance difficult both from his own perspective and from that of the board of directors. The CEO must play a dual role with the board in performing his executive tasks, while assisting the board in performing its monitoring and control functions.

<u>The Seventh Hypothesis</u>: <u>Cooperative decision making tends to be slow causing a competitive disadvantage</u>. This hypothesis is supported by the answers to the questions: "Do you agree that cooperative decision making is slow?" and "Why is decision making slow? Is slowness an advantage or disadvantage?"

A majority of interviewees thought that decision making was slower for cooperatives and that slowness was a disadvantage. In general, the governance side of decision making, which involved the board of directors, was thought to be a major factor in slow decision making. It was indicated that some issues may require the board and management to spend considerable time before a decision is made or implemented, convincing members to "buy into" the decision. The level of support by members or by the board of directors for a proposal from management affects the speed of making decisions. If members have a high degree of confidence and trust in directors and management, decisions can be made more quickly. If directors delegate more decisions to management and provide their support to management, decisions can also be implemented more quickly.

<u>The Eighth Hypothesis</u>: <u>The relationship between CEO and Chair is a unique one and a key factor for successful decision making</u>. This hypothesis is supported by the answers to the questions: "What type of issues do you discuss with your chair?;" "What ingredients are required for a productive working relationship between a CEO and Board Chair?" and "What factors most often inhibit a productive relationship?"

In many investor-owned firms, the chair of the board and the chief executive officer are one and the same person, although there is a current shift to separating these positions. Several senior management typically serve on the board of directors. The chair of the board tends to be someone with a history of business experience with the firm or in the industry which the firm operates in.

This is not the case in a cooperative. In all instances a cooperative chair is a farmer member and has limited direct management experience with the cooperative or the industry. The CEO most likely has no influence in selecting the board chair. Rapid turnover in board chairs caused by retirement from farming, director term limits, not being reelected to the board, board politics or other factors unique to cooperatives can disrupt this relationship.

The cooperative board chair has several unique roles. They represent the "hand of the farmer" at the top of the organization. They quite often play a key role in representing the interests of the cooperative and members to outside groups and entities. Legislators and policy makers look for their leadership in representing members and their interests. This role can be very time consuming and possibly compete with the time needed to effectively perform his internal duties as chair.

The external prestige of the board chair can affect the CEO and their relation with the board chair. Both must find a balance of leadership which is most productive in advancing the goals of the cooperative.

<u>The Ninth Hypothesis</u>: <u>Cooperatives tend to over emphasize short term returns limiting the ability to focus on long term planning</u>. This hypothesis is supported by the answers to the questions: "What is the planning horizon for your cooperative?" and "How is the plan used?"

The majority of cooperatives in the study had a planning horizon of between one to three years. Moreover, the authors believe that in some cases budgeting was confused with planning in regards to the question on whether an organization had a written strategic plan. The performance measures most often mentioned by cooperatives tended to emphasize short term returns to members. The economic expectations of farmer members influence the ability of cooperatives to adopt longer term performance measures. Member emphasis on the need for short term payoffs and unwillingness to wait for returns on long term investments can limit cooperative planning to a short time horizon. Members effectively have a high discount rate on capital invested in the cooperative. Whether or not this is actually the case should be the topic for further study.

A cooperative's planning horizon and decisions can be dependent on market conditions. During periods of poor prices, members and the board may apply more pressure for short term results. On the other hand, during periods of good prices there may be greater opportunity to pursue projects and policies with a longer term payoff.

<u>The Tenth Hypothesis</u>: <u>Cooperatives tend to be more risk-averse than other types of firms</u>. The hypothesis is supported by the answers to the question: "Do you think cooperatives are more or less willing to accept risks than other types of firms?"

The tendency of cooperatives to avoid risk taking can be associated with not being able to afford to take risks, having a short term planning horizon or not knowing how to assess the payoffs from opportunities involving risk. In addition, risk aversion seems to be a part of the cooperative corporate culture.

There are several types and degrees of risk: the risk of sticking with traditional operations, the risk of new activities related to traditional operations, the risk of entering new segments of the industry, the risks of taking on unrelated activities, etc. All business involves some type and degree of risk. The issue is whether cooperatives are willing to thoroughly analyze and accept a reasonable level of risk to achieve their objectives and be successful. Even though it is impossible to answer that question from the data provided in this study, it is hypothesized that most cooperatives error on the conservative rather the aggressive side of taking reasonable risks.

Summary

Table 5.1 summarizes the results of testing the ten hypotheses developed for this study. Eight of the hypotheses were tentatively accepted, while two were inconclusive. The latter two concerned whether boards select alternatives that benefit members at the expense of the cooperative and whether board politics diverts directors from making decision in the best interest of the cooperative. The reader is reminded that these hypotheses were not tested using objective statistical techniques. Rather they were accepted or rejected based on the qualitative responses provided in the personal interviews.

Section V has evaluated the hypotheses in light of the material presented in Section IV. The next section discusses some of the strengths and weaknesses which are common to cooperative decision making. Strategies for building upon the strengths and managing weaknesses are presented, as well as suggestions for future research.

Table 5.1 **EVALUATION OF THE HYPOTHESES CONCERNING COOPERATIVE DECISION MAKING**

	Hypotheses	Accept, Reject or Inconclusive
1.	Members influence economic decisions more through voicing opinions than by voting.	Accept
2.	Cooperatives have a distinct corporate culture which influences how decisions are made.	Accept
3.	Diffuse measures of performance present difficulties in arriving at optimal choices.	Accept
4.	Boards of Directors are more likely to select alternatives which directly benefit members even at the expense of the economic interest of the cooperative.	Inconclusive
5.	Internal and external political issues tend to divert directors' attention from making decisions in the best economic interest of the cooperative.	Inconclusive
6.	Cooperative CEO's face a more diverse set of pressures in making decisions than their counterparts in other types of firms.	Accept
7.	Decision making tends to be slow, creating a competitive disadvantage.	Accept
8.	The relationship between CEO and Chair is a unique one and is a key factor for successful cooperative decision making.	Accept
9.	Cooperatives tend to over emphasize short term returns limiting the ability to focus on long term planning.	Accept
10.	Cooperatives tend to be less willing to take risks than other types of comparable firms in the same industry.	Accept

SECTION VI: STRATEGIES FOR IMPROVING DECISION MAKING

The study began with the following question: Confronted with similar circumstances, would a cooperative make the same decisions as an investor oriented firm? A review of the literature suggests that cooperatives, as membership organizations, are unique in numerous ways. A decision making model was developed to better describe the distinctive elements of cooperative decision making which was used to develop a set of ten hypotheses. These hypotheses were tested utilizing data obtained through conducting personal interviews with twenty-two chair's and CEO's of fourteen cooperatives. The responses of these cooperative leaders strongly suggest that the decisions made within cooperatives may differ significantly from those of investor oriented firms. An analysis of data generated from the survey points towards the identification of strengths and weaknesses potentially inherent in cooperative decision making.

This study was not experimental seeking sought to determine if and how decisions made within cooperatives would vary from those of investor oriented firms. Rather its purpose was to identify the factors that could cause such differences.

In this section, the unique characteristics of cooperative decision making are analyzed to determine where some of the strong points and weak points may arise in cooperative organizations in making the best decisions. Strategies for improving cooperative decision making are presented based on what was learned from the study. Finally, issues for further research are discussed.

Strengths and Weaknesses of Cooperative Decision Making

In Section II, a cooperative decision making model was developed presenting seven general elements of group decision making: a group of **decision makers**, with certain individual **preferences**, **focus attention** on a problem area and select an available **course of action** to address an **identified issue** within a given **organizational context** by means of a specified **process.** Testing the effectiveness of decisions made is assumed to be part of the decision making process as well.

The following discussion presents a table for each of these seven general areas with features unique to decision making in cooperatives and presents potential strengths and weakness for each factor. Any or all factors may not be found in every organization and the degree of potential strengths and weaknesses will vary considerably among cooperatives. This analysis is presented to help identify some of the strengths and weaknesses common to how cooperatives arrive at decisions and where there may be areas to improve the effectiveness of decision making.

Decision Makers

One of the most important differences in cooperatives is rooted in the combined role of members as owners and users. For any individual member, what they want from their organization as an owner may differ from what they want as a user. For example, a member of a marketing cooperative may want the highest return on his equity as an owner. But as a user, the member may want the cooperative to take all the product the farmer can produce. In a supply or service cooperative, a member as an owner may want the lowest prices possible, but as a user the member may want the cooperative to offer services not available elsewhere. There is an internal conflict in each of these situations. The marketing cooperative may find it more profitable to only handle what the market can reasonably absorb at prevailing prices rather than everything a farmer can produce. For the supply and service cooperatives additional services imply added costs and therefore higher prices. The point is that each member may have a diverse set of goals for their organizations which may even be internally inconsistent. Aggregate the goals of all members and it can be difficult to agree on a common vision and objectives for the organization.

Another important factor is the rather even distribution of voting control which often takes the form of one-member one-vote. In addition, cooperatives often provide several are opportunities for members to express their voice their to directors and management (i.e. membership meeting, 800 telephone numbers, the willingness of managers and directors to take member telephone calls and letters, etc.). Also, members or subgroups of members may have a tendency to put their own interests ahead of that of the cooperative. The rather even distribution of control means a cooperative may be responsive to all segments of the membership.

Compare this situation to investor oriented firms where the owners have a common goal of return on invested capital and are not often users of the organization. Also, control in investor oriented firms is based on the amount of invested capital. The potential for cooperatives to pursue different goals also has the impact of de-emphasizing returns and may cause a shifting of objectives and priorities within the organization over time.

As agricultural producers become more heterogeneous it is reasonable expect the membership of cooperatives to also become more heterogeneous. Members who do not have a direct interest in a specific cooperative service or activity may consider it non-essential or even wasteful. This problem will likely increase with the heterogeneity of the membership, and cause greater conflicts between subgroups of members.

One major strength of cooperatives is their closeness to members. This provides an ideal source of information. For supply and service organization this implies being close to one's customers. For marketing cooperatives, closeness to suppliers is a goal of goals many organizations that practice total quality management have.

The wide range of objectives and different priorities among members probably is reflected among directors and finds its way into board room deliberations. As a result, it is imperative cooperatives develop a mechanism to create a consensus among the board, and between management and the board concerning the organization's goals, objectives and priorities. The typical mechanism for this is effective strategic planning. While most organizations that participated in the study indicated they do carry out regular and formal strategic planning, the importance of effective strategic planning in cooperatives is heightened by their inherent diversity of goals. The primary purpose of strategic planning should be to create a unified vision and common objectives for the organization. The process may be as useful as the resulting document because if done correctly strategic planning provides an opportunity for all parties involved to become committed to the unified vision and common objectives. Finally, to be truly effective the general outline of the strategic plan should be shared with members in order to inform them of the organization's objectives and priorities.

The board chair is elected from among the cooperative's directors. The chair is a primary representative of the cooperative and spokesperson for members and the board as well as the main liaison with management. The study found that elections of a cooperative officers are a common source of board politics.

The CEO-Chair team is a key link in cooperative decision making since the positions are held by different individuals. The factors that determine a successful relationship are: good personal chemistry, mutual trust and open communications. Unfortunately, these qualitative factors may be determined the personality and style of the individuals involved. However, these factors are likely to impact the working relationship between management, directors and members, and impact the strategies and decisions made.

Cooperative CEO's also face a unique decision making environment. First additional interpersonal and communication skills are required. The evidence suggests they face additional demands. A significant portion of their time is spend on board and member relations activities and this diverts time from operations. In addition, the CEO must be able to provide the management expertise that his board lacks. Management should also be prepared to respond to member comments and even criticism. It is probably reasonable to assume that the characteristics of a cooperative make a CEO's decision making more open to member and board reactions, more cautious and more conservative.

TABLE 6.1 UNIQUE FACTORS FOR COOPERATIVE DECISION MAKERS

Decision Maker	Unique Factor	Potential Strength	Potential Weakness
Members:	Are the owners	Vested interest in decision Encourage business to "Stick to Knitting"	Lack of understanding of role as owner
	Primary users	Observe business first hand Commitment to and dependence on	May put self interest ahead of cooperative
	Diverse set of Member Goals	Tries to satisfy needs of specific groups of members	Discourages focus Tempted to pursue many goals Goals may be in conflict
	Typically a Heterogeneous Membership	Diverse customer/producer base	Creates more opportunity for conflict
	Ultimate Control	Member loyalty Can change organization	Greater need for informed members
	Elect Directors	A democratic system The means of control	Lack complete knowledge of director performance
	Voice Opinion	Director feedback from customer/supplier	Tendency to voice negative opinions
Directors:	Elected from membership	Democratic system	Pool of candidates limited to members, geographic area and qualifications
		Sees decisions from a "Grassroots Perspective"	
		Feel they represent members	Non-business factors may influence elections Quality and commitment of directors can vary

Table 6.1 Unique Factors For Cooperative Decision Makers (cont)

Decision Maker	Unique Factor	Potential Strength	Potential Weakness
Directors: (cont)	Typically limited experience in large organization	(none apparent)	Candidates have homogenous background, ie, ag. production Lack of appreciation of large complex businesses Management may have more information on some issues
	Member Representation	Insures member interests are represented	Conflicts between serving as corporate trustee and representative of members may arise
		Direct link to members for informing them about status and decisions	Divergent goals of members can translate into conflicts among directors and fragmentation of the Board
		Strong obligation to members to stay informed	Test ability to keep information confidential
	User of Business	Better understand impact of decisions	Can put director in conflict on making decision hurting their own form operation
		Keep costs and compensation low	Low costs and compensation may impede operations and reduce pool of directors, managers and employees
Board of Directors:	Meeting format	Thorough consideration of issues	Meet more often with long meetings
		Meetings used to educate directors	More management time spend for board meeting

Table 6.1 Unique Factors For Cooperative Decision Makers (cont)

Decision Maker	Unique Factor	Potential Strength	Potential Weakness
Board Chair:	Elected by fellow directors	Represents majority of the board	Can be political process
	Highly visible leadership role	spokesman for members	External leadership demands can divert efforts away from internal affairs
	Primary liaison with CEO, middle management, and employees	Keeps "Farmer's Hand" at the top	Can get too involved in day to day business
	Primary responsibility for Board of Directors	Should have respect and good working relation with directors	Might be difficult to discipline peers or fellow farmers
	Internal turnover form discounting farm operation or election	Renewed leadership	Turnover related to politics, not related to business issues
	High level of time commitment	Keeps individual committed and involved in leadership role	May be hard to balance time commitment with own farm business needs
CEO-Chair Team:	Typically CEO is not chair	Assures balance of power	Can lack understanding of team approach, lack of balance in power and skills
	Team approach	Matches individuals strengths and weaknesses	Varying levels of mutual trust and understanding of roles Demands high level of communication and good personal chemistry
Chief Executive Officer	Requires special set of skills	Interpersonal and personal skills given a high priority	Business management skills can be given a lower priority

Table 6.1 Unique Factors For Cooperative Decision Makers (cont)

Decision Maker	Unique Factor	Potential Strength	Potential Weakness
Chief Executive Officer: (cont)	Difficulty in evaluating performance	(none apparent)	Diverse set of organization's goals and experience of directors can make performance review inconsistent
	Does not select directors	May make directors more objective	Reduces diversity of skills on board, No CEO colleagues on board
	Time spent informing board	Ability to develop consensus on board decisions Build support of members through directors	More meeting time spent on information at expense of operations Diverts CEO time from more pressing issues
	Sporadic evaluation	(none apparent)	Sends unclear message to CEO, Don't know where they stand with board
	Unclear succession	(none apparent)	Can get caught in middle of board politics Lack of clear plan for CEO succession

Strategies for Improving Effectiveness of Decision Makers

* Increase member commitment through strong and legally binding membership agreements, patronage commitments, and equity contributions.

* Include in membership agreements the responsibility to keep informed about and participate in the affairs of the cooperative.

* Encourage feedback from members by facilitating the voicing of opinions through surveys, focus groups, or toll-free phone numbers and relay back how input is utilized.

* Develop well defined qualifications and a job description for directors that include personal, business, and cooperative criteria as well as the ability to work as a team player.

* Inform members of the desired qualifications of directors and inform them about new candidates experience as well as about incumbent performance.

* Develop specific qualifications for all board officers and encourage selection based on those criteria. Vision and leadership ability should receive high priority.

* Instill in the board chair the importance of providing vision, leadership, teamwork and board discipline as well as maintaining open and honest communications with the CEO.

* Explore the feasibility of inviting outside directors to serve on the board either in an voting or nonvoting capacity.

* Encourage the Board to make full use of outside professional expertise provided by counsel, auditors, accountants or consultants when necessary.

* Provide opportunities and support participation in director training for all aspects of the director position, (i.e. finance, marketing, management, decision making, strategic planning).

* Carefully identify the key qualifications needed by the CEO and develop an up to date position description including the unique skills required for managing the cooperative.

* The board should on an annual basis specifically spell out what is expected of the CEO and provide formal feedback with respect to performance.

* Strive to improve the productivity of board deliberations and reduce the amount of time devoted to meetings so management can spend more time managing the cooperative.

* Familiarize the board with upper management staff with the potential to succeed the CEO and develop a CEO succession plan highlighting the desirability of promoting within the organization or the necessity to look outside.

Decision Making Preferences

Having multiple goals in possible conflict combined with the lack of quantifiable measures of performance makes decision making more difficult in cooperatives. Member's tendency to prefer short term returns or long term results as well as the dual role of directors serving as the trustee of the cooperative and as a representative of members interests can create unique challenges.

One can imagine that decisions made will vary from those of investor-oriented firms. However, it must be remembered that the objective is not to have cooperatives to make the same decisions as investor oriented companies, but to make decisions that are in the best long term interests of the cooperative and members. The following table summarizes some of the strengths and weaknesses inherent in the preferences which cooperative decision makers tend to have.

TABLE 6.2 COOPERATIVE DECISION MAKER PREFERENCES

Decision Maker	Preference Factor	Potential Strength	Potential Weakness
Members:	Emphasis on short term return	Can result in meeting priority member needs	Limits ability to focus on and attain longer term returns
Heterogeneous Membership:	Mixed set of goals	May include optimal mix of desirable goals for members and cooperative	Tends to result in ambiguous measures of performance or conflicting goals
Directors:	Placing limited member interest above cooperatives interest		Can be inconsistent with reaching optimal decision benefiting cooperative or majority of members
CEO:	Pursues conservative approach to management	Fits with organization's philosophy	Can limit undertaking more aggressive strategies and tactics

Strategies Developing Sound Decision Maker Preferences

* Assist members in understanding the economic trade-offs in preferring short term returns versus maintaining a longer range view of the business, (i.e. hindering ability to raise equity capital, limited investment in future, and ability to undertake more profitable long term ventures).

* Develop a well integrated set of goals for the cooperative which are consistent in meeting both the needs of members as well as the cooperative.

* Make all decision makers (from the board to employees) realize that for cooperatives to succeed they must meet the current and ever changing wants and needs members understanding: that different types of members have varying needs and dependency on the cooperative. The organization will most likely succeed if it best serves the needs of members who will be in business over the long term.

* The board and members should support the CEO and management in undertaking well thought out riskier strategies and aggressive approaches showing promise which might otherwise run "against the traditional grain" of the cooperative.

Focusing Attention On Problem Areas

The ability of an organization to clearly focus attention on an issue area before the initial problem grows into more costlier proportions. Any organization can have it's own "organizational blind spots" or institutional unwillingness to address issues which are too sensitive in a timely way.

Two major factors in cooperative organizations have a significant influence on how attention is focused on problem areas. The first is that addressing member problems may take precedence over other types of issues such as finance, needed investments, and marketing activities. The second is the tendency for cooperatives to put a greater weight on short term issues than long term issues. Both factors can effect the priorities and decisions of cooperatives. The perceived risk aversion of membership may causes the organization's leadership to be more cautious than a market oriented corporation should be.

The resources which an organization has available at any given time to focus on a problem area are limited. Diverting valuable resources to areas with less than optimal payoffs can be costly. Some of the areas which cooperatives divert resources to can be focusing on the needs of a vocal minority of members at expense of the rest on members. The following table summarizes some of the factors unique to cooperatives in focusing attention on issues.

TABLE 6.3 UNIQUE FACTORS IN FOCUSING ATTENTION ON ISSUE AREAS

Issue Area	Unique Factor	Potential Strength	Potential Weakness
Risk Taking	Risk Averse	Conservative approach Effective in certain markets or economic environment	Tendency to be overly cautious in economic environments demanding rapid change
Focusing on strategic issues	Tendency to focus on details	More attention to detail	Narrow focus can result in missed opportunities Lose sight of "Big Picture"
Member issues	Immediate member needs supersede cooperatives	Priority member needs receive attention	Loss of focus on issues related to long term viability and success of cooperative
Allocating costs of serving members	Equal allocation to all members	May be equitable approach if all members incur equal costs	Unequitable to some member

Strategies for Staying Focused on Priority Issues

* Adopt more effective methods for analyzing risk and potential returns on decisions to limit the inherent risk aversion of cooperatives.

* Encourage board and management to step back from a narrow focus on details of business, take time to look at the "big picture" and make time for strategic planning

* Assist members in understanding that maintaining a focus on only addressing problems of immediate importance to them may limit the ability of the organization to focus on priority issues affecting the longer term growth and survival of the cooperative.

* Filter out the voices of a "vocal minority" of members when their views are counter productive to addressing the priority needs of all members or the cooperative and divert valuable resources better utilized elsewhere.

* Develop a Management Information System data base on the characteristics of members (size, patronage, location, age) for use in analyzing the costs and marginal returns to serving the wants and needs of various segments of members.

Courses Of Action

In many ways decisions made in a cooperative are similar to those of non-cooperative firms. However, several overriding factors can limit the courses of action available to cooperatives. The relation between members and their organizations, the tendency towards lower risk approaches and limited strategies for growth can set cooperatives apart from other types of businesses.

One of the most important factors is the issue of equality versus equitable treatment. Equality is defined as treating all members the same in terms of pricing, costs, fees, equity and services.
However, different members most often impose different costs and may receive disproportionate benefits from the cooperative. Equitable treatment means costs, prices and/or services are adjusted so that the net margins per member are equal. As a result one member or group of members should not subsidize the activities of another member or group of members. This implies different members or groups of members may experience different costs, fees, prices or degrees of service.

Secondary issues also influence cooperative decisions. They include: the tendency to put the interests of members ahead of that of the cooperative, the desire to protect the entire industry in which the cooperative operates, greater emphasis on cost efficiency that value added marketing in an attempt to minimize costs and risks, and an internal incentive to improve prices quickly and move in the other direction slowly.

Cooperatives can be limited in the courses of action available for achieving sustained growth. Potential limitations on the amount of nonmember business or the business environment for members can limit the strategies available compared to other firms.

TABLE 6.4 UNIQUE FACTORS FOR COURSES OF ACTION

Courses of Action	Unique Factor	Potential Strength	Potential Weakness
Prices paid members	Quicker to raise prices and slower to lower prices	Satisfy member desires	Can put cooperative at a competitive disadvantage
Providing services to all producers	Overemphasize Importance of supporting total industry	Creates goodwill among all producers	Exaggerates "Free Rider" effect as the nonmembers benefit without bearing costs
Limited R&D or new product development	Emphasis on conservative strategies	May be cost effective	Limits effective value adding activities and marketing innovation
Providing short term returns to members	Emphasis on short term returns	Builds member loyalty	Emphasizes immediate returns at the expense of long term growth and returns
Low risk courses of action	Unwillingness to take risks	Stability in volatile or declining markets	Limited return on assets and investments
Strategies for growth	Limits on nonmember business	May keep organization focused on core business	Can limit growth through acquisitions, may reduce efficiency
			Can limit number and type of products or services
	Poor economic conditions for member businesses	May depend more on cooperative	Can limit ability to raise capital to finance growth, members may look for alternatives

Strategies for Overcoming Limited Courses of Action

* Understand all of the costs and benefits of providing services to nonmembers in a particular industry. Develop strategies for limiting nonmember participation or cost sharing in the economic benefits provided by the cooperative.

* Make sure members, directors, management and employees realize that to be successful, a cooperative must remain a financially attractive alternative compared to the competition.

* Maintain an appreciation for the costs and benefits of marketing (value-added, new product research and development activities, branded products). Understand opportunities where benefits outweigh risks.

* Explore compatible joint ventures, partnerships or strategic alliances where the cooperative can participate in opportunities for successful growth beyond member business constraints.

Unique Problem Areas

The unique organizational nature of cooperatives can create distinctive issues in the areas of: finance, marketing, and management. In the area of finance, the primary users of the business are also the primary investors in the business. This relation-ship can have a significant impact in terms of the relation between equity and debt. The cooperative principle of membership equity financing limits the organization's base of potential equity. Also, the conflict between being an owner and user impacts the distribution of returns between price and patronage refunds, and as a result, return on equity.

In the study, it became obvious that decision making rules differed depending on who were the cooperative's primary customers. If there were a large number of customers who were non-members, there was less hesitancy for the cooperative to maximize profits (and price) than if the customers were members. When the customers were primarily members, cooperatives were more reluctant to maximize profits (and price) because of the impact on members. This issue of profit maximization creates a different set of problem areas for marketing, and supply and service cooperatives. Consequently, each type of cooperative is considered separately. Several distinctive issues arose in the area of cooperative management which are also presented.

TABLE 6.5 UNIQUE ISSUES IN COOPERATIVE DECISION MAKING

Issue Area	Unique Factor	Potential Strength	Potential Weakness
Finance:	Owners are users	Ownership control concentrated in membership	Limited ability to raise equity capital Can result in lower levels of equity than competing investor owned firms
	Tendency to pay premium prices to members	Provides immediate economic benefits to members	Benefits returned through price rather than patronage refunds limit ability to raise equity
	Legal limits to dividends paid-on member investment	Keeps focus on distributing benefits based on use of the business	Can limit willingness of members to invest in cooperative
	Availability of equity capital based on member ability to invest	Strong growth in member businesses can increase availability of equity capital	Poor financial condition of member business can limit ability to invest in cooperative
Marketing:	Members are primary source of raw product	Can facilitate total quality management	Off grade or low yields can limit quality or volume Non-member products can create conflict
	Slow reaction to market changes	Short term benefit to member	May not be optimal economic response for cooperative
	Over emphasis on cost efficiency versus value added marketing	Commodity approach may be most effective marketing strategy	Can limit cooperatives involvement in profitable value added business
	Member needs overshadow customer's wants and needs	Member receive attention	Narrow focus on members needs may preclude meeting customer needs

Table 6.5 Unique Issues in Cooperative Decision Making (cont)

Issue Area	Unique Factor	Potential Strength	Potential Weakness
Service/Supply:	Members are primary customers	Encourage being "Close to the Customer"	Limited level of non-member business can be an issue
	Variable impact of decisions on members	Can result in equitable cost sharing	Can create higher costs for some members or groups of members
Management:	Inability of CEO to invest in cooperative	Keeps ownership limited to members	Can limit ability of CEO to directly participate in economic growth or reward performance
	Diverse set of goals	Can address diverse needs of members	Can make measuring CEO performance more difficult

Strategies for Addressing Unique Issue Areas

* Promote the importance of providing adequate equity capital by members to advance to their economic interests over the longer term even though may be a short term cost to members.

* Develop member investment programs which provide for adequate equity financing through economic cycles affecting member businesses.

* Adopt policies that reduce a producers' ability to use the cooperative as their market of last resort.

* Develop compensation mechanisms for allowing participation of the CEO in financial growth of the business and for rewarding performance.

* Capitalize on "being closer to the customer or supplier" with the unique member relation in cooperative businesses. A cooperative should ideally know more about their customers or suppliers than the competition.

* Be customer oriented even if there are short term added costs to members for insuring volume and quality of products.

Organizational Context

Cooperatives possess a different corporate culture from other types of organizations. There is a member rather than a customer focus. Decision making is slower. Cooperative leadership is reluctant to put member resources at risk, and as a result are cautious in their decision making. At the same time, members desire a higher level of information and communications than with other types of organizations.

The nature of a cooperative's history, culture, democratic control, and phase in the organization's life cycle will have an impact on its decisions. Divergence of goals implies non-economic factors may impact the outcome.

TABLE 6.6 UNIQUE ASPECTS OF ORGANIZATIONAL CONTEXT

Organizational Factor	Unique Aspect	Potential Strength	Potential Weakness
Corporate Culture:	Risk Averse	Can create fiscal stability and limit losses from high risk investments	Limit participation in high return ventures requiring risk taking
	High level of communication with directors and members	Effectively builds support for rationale for making a decision Can result in more effective implementation of a policy following decision	Cost of communications and member relations can be a competitive disadvantage
	Slower decision making	Can allow time to build support throughout organization	Make result in missed opportunities or inability to keep up with pace of industry
	Decisions made in more open environment	Allows information to flow to all decision makers	Openness may allow competitors unfair access to information
	Strong focus on founder's values	Economic need for organization is still valid	Dramatic changes in industry or member business may leave cooperative behind competition
Organizational Life Cycle:	Problem oriented phase	Effectively address member's needs for initially forming cooperative	Too high a concern for past member needs at the expense of current needs of the cooperative
	Internally oriented phase	Obtain high level of efficiency	May result in limited returns from commodity type business
	Externally oriented phase	Develop effective value added marketing strategy	Requires high level of investment and willingness to take risk
	Sell out phase	Obtain agreeable price for members investment in cooperative	May limit members marketing or purchasing options further down the road

Strategies for Operating Successfully within An Organizational Context

* All decision makers need to understand the tradition and corporate culture the organization is operating in and consider what the strategic strengths and weaknesses are associated with that organizational context.

* Use the cooperative's history and tradition as a base to build on rather than the way things should be in the future.

* Develop a positive internal corporate culture which supports and rewards meeting current organizational goals.

* Adopt a thorough, efficient approach to making decisions in a timely fashion.

* Understand the current phase in the organization's life cycle and what are the conditions needed to move on to the next desired phase.

The Decision Making Process

The overall decision making process is influenced by all the above factors. However, there are a few issues unique to the cooperative decision making process. These include: a diverse and tough to quantify set of goals imposed by members and the board, the slower decision making process, a tendency for risk aversion, democratic control, the desire for director to be informed of the impact of decisions on their constituents and themselves, and the input of members throughout all elements of the organization by voice, voting and exit.

TABLE 6.7 UNIQUE FACTORS FOR COOPERATIVE DECISION MAKING PROCESS

Process Factor	Unique Aspect	Potential Strength	Potential Weakness
Democratic Approach:	Member voting	Directly involves key supplier or customers in decision making	Over emphasis on non-economic factors in arriving at decision "Politics" may cloud over making the right choice Limited voter tumout and relatively few opportunities to vote can limit effectiveness
	Member voice	Can provide source of productive ideas and suggestions to improve performance	Multitude of voices with conflicting views may create confusing or non-productive message
	Member exit	Sends clear message to organization that member strongly disagrees with decisions or direction	Members leaving organization are no longer involved or able to influence decision making
	Director term limitations	Allow for "new blood" on board or fresh perspectives	Can create turnover unrelated to director performance
	Director nomination and selection process	Includes "Grassroots" input in selecting and nominating candidates for board	Members may have limited knowledge of incumbent performance Most qualified candidate might not be available to run or be nominated Increased pressure on farm manager's time and shrinking pool of candidates can limit number of nominees
Process for Testing Decisions:	Multitude of performance measures	Integrated set of measures might accurately determine optimal choices	Disintegrated set of measures in possible conflict results in ineffective testing for optimal choices

Strategies for Improving Decision Making Process

* Reduce board politics that are harmful to the organization, while encouraging the independent and productive contributions of individual directors.

* Given the increased pace of change in markets, decentralize the real authority and responsibility of decision making and implementation of decisions made.

* Increase members' understanding of the role of "voice" in democratic control and develop ways for members to know cooperative leadership is listening.

* Assure the cooperative has an effective nominating system that encourages identification and recruitment the most qualified candidates for director.

* Make the position of director as attractive as possible in terms of minimizing time required, providing adequate compensation, and highlighting the value of experience gained.

* Keeping in mind that other directors are the individuals most aware of their colleagues performance in the board room, have fellow directors evaluate each director up for election and pass that information on to each respective nominating committee.

* Perform "best case," "average case," and "worst case," scenarios on all major decisions.

* At least on an annual basis review the performance of major decisions over the past few years to learn what can be improved in the decision making process.

Limitations to the Study

This study has several limitations which should be noted. Given the time required to conduct individual interviews required for this type of research combined with limited resources available to conduct the personal interviews, the sample size was rather small . As was discussed earlier, the composition of the sample was purposely limited resulting in a sample that is not representative of the population of agricultural cooperatives in the U.S. However,

Suggestions for Further Research

This project was intended to be an exploratory study of how decision making in cooperatives differs from other types of organizations. It was not meant to be the final chapter on studying these issues. The results provide a rich source of hypotheses for further research. The following are a few suggestions for future efforts.

A more in depth project would be to develop a controlled study of the decisions made by two sets of organizations in the same industry. This approach would include how and when they identify problems and opportunities, the process of reviewing options and the nature of potential strategies proposed to address those problems and opportunities, the fine tuning of strategies by their boards and owner reactions, and the process of implementing the selected strategies. This could be done by observing groups of organizations in similar industries, or in a laboratory setting. The current study could serve as a basis for developing hypotheses. The results of this study are based on anecdotal data and the experience of individuals with cooperatives. Further study could be based on actual decision making processes.

Several strategies were proposed to improve the decision making and performance of cooperative organizations. The proposed strategies were based on standard management concepts. Further study could be focused on each recommendation to determine if it 's adoption would result in improved decision making and cooperative performance.

Several conclusions reached in this study lend themselves to further research. What are the costs for cooperatives in being slow to make decisions? What level of risk taking are members willing to support? How do members measure financial risk? Where do risk aversion signals come from in a cooperative: management, directors or members?

How do cooperatives effectively arrive at an optimal synthesis of financial goals presented by the constituencies involved i.e. management, markets, providers of capital and members? What are the most useful measures of cooperative performance in light of the mix of financial goals?

What are the effects of the cooperative corporate culture on decision making? We know culture has an important influence but how? How do the value premises of cooperatives distort some of the factual premises used in making decisions. When should a cooperative decide to change it's corporate culture?

Overall Summary

Cooperatives are unique organizations. Evidence from this study suggest that the decisions of a cooperative and another type of organization would likely differ in terms of how problems and opportunities were perceived, the alternatives analyzed, the time it takes to make a decision, the final decision and the decision's implementation. The way cooperatives make decisions has strengths and weaknesses. Cooperatives should try to capitalize on their advantages, and realize and minimize their decision making disadvantages. In this section we have tried to outline numerous strategies to improve the decision making and performance of cooperative organizations. The responsibility is now with the leadership of cooperatives to better understand decision making in their organizations and improve the process.

We have attempted to analyze the relationships between the variables in cooperative decision making. Because of the exploratory nature of this approach and the dearth of information on many areas of cooperative decision making, some of our conclusions remain tentative.

It is difficult to separate the behavior of the cooperative firm from the behavior of the key decision makers although the two are clearly not identical. Very little systematic research has been conducted on cooperative decision making. The information that does exist often focuses on a limited number of decisions made on easily quantifiable problems such as pricing, resource allocation or investment decisions. Economists tend to focus on the outcomes of decisions rather than the decision making process itself. We hope this study maintains an economic perspective on decision making yet stimulates a better understanding of the decision making process in cooperatives.

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Appendix A. Location and Type of Cooperatives Surveyed

Name	Location	Type
Blue Anchor, Inc.	Sacramento, CA	Marketing
Blue Diamond Growers	Sacramento, CA	Marketing
Cabot Farmers Cooperative Creamery (merged with Agri-Mark in 1993)	Cabot, VT	Marketing
CalCot, Ltd.	Bakersfield, CA	Marketing
Citrus World, Inc.	Lake Wales, FL	Marketing
Dairylea Cooperative, Inc.	Syracuse, NY	Marketing
Eastern Artificial Insemination Cooperative, Inc.	Ithaca, NY	Service
Eastern Milk Producers	Syracuse, NY	Marketing
GROWMARK, Inc.	Bloomington, IL	Supply & Marketing
Indiana Farm Bureau Cooperative (merged with Countrymark Cooperative, Inc. on September 1, 1991)	Indianapolis, IN	Supply & Marketing
Northeast Dairy Herd Improvement Cooperative	Ithaca, NY	Service
Rice Growers Association of California	Sacramento, CA	Marketing
Seald-Sweet Growers, Inc.	Tampa, FL	Marketing
Upstate Milk Cooperatives	LeRoy, NY	Marketing

Appendix B.

Department of Agricultural Economics
Cornell University

INTERVIEW QUESTIONS FOR COOPERATIVE DECISION MAKING STUDY
Chief Executive Officer Questionnaire

All information will be held strictly confidential.

1. Based on your professional experiences, do you think the decision making process in cooperatives is different in any way from that of other types of firms? If so, in what ways?

2. What is the primary goal of your cooperative and how do you measure performance? How is that goal measured?

3. How are cooperative policies really established?

4. Do you have a written long term (i.e. strategic) plan?

5. Do cooperatives have a unique corporate culture? If so, what are the primary elements of the "cooperative corporate culture"?

6. Do you think cooperatives are more or less willing to accept risk than other types of firms? Why?

7. People often say that cooperative decision making is slow. Do you agree?

8. How and when do members exert influence on cooperative decisions?

9. There are three general ways cooperative members can exert democratic control: a) by voting, b) by voicing their opinions to cooperative management and directors, and c) by leaving the organization. How would you rank the importance of these three methods of democratic control?

10. How are members informed of major policy decisions?

11. In cooperatives, many policy decisions have a differential impact on members and the cooperative. What is usual outcome of these types of decisions:

    a. A policy that would benefit most members but would have a significant negative impact on a small group of members?

    b. A policy that would have a significant benefit to a small group of members but could have a small detrimental impact on a majority of members?

    c. A policy that would be detrimental to the financial condition of the cooperative but would have a beneficial effect on most members?

    d. A policy that would benefit the financial condition of the cooperative firm but would impose some extra costs on members?

12. Many cooperative decisions will have different impacts on different groups of members (i.e. based on their size, degree of specialization, location, length of membership). Does your cooperative have any formal method to analyze the impact of a decision on different groups of members? If so, how?

13. Do directors normally ask the type of questions necessary to effectively develop and control sound cooperatives policies?

14. As a CEO, do you find that directors and members provide unique input into issues and decisions that management has not already considered?

15. Board meetings can be an educational experience. At board meetings, do you feel directors learn more, management learns more or it is about equal an learning experience for both?

16. Do you feel board meetings make effective use of time?

17. What do you think members view as the role of a director? What do directors view as their role?

18. One of the roles of a board is to "control" the organization, that is, review the performance of the CEO and cooperative. Do you find that management must play an active role and assist the board in carrying out its control function?

19. Is there a lot of "politics" within a board of directors? What is the source of cooperative politics?

20. As a CEO, where do you get new ideas and test those ideas?

21. In addition to the technical qualifications, do you feel being a cooperative CEO requires any special skills or characteristics?

22. One cooperative CEO has said that it is easier to be a poor CEO and more difficult to be a good CEO in a cooperative compared to other types of firms. Do you agree or disagree? Why?

23. Does your cooperative have a plan for CEO succession?

24. What is the frequency of your contact between you and your Chairman? Also, what types of issues do you try to discuss with your Chairman?

25. What ingredients are required for a productive working relationship between a CEO and Board Chairman?

26. Do you have an annual performance review? Has your board developed satisfactory procedures that provides you valuable feedback on your performance?

27. Does being a cooperative have any direct impact on the decision making procedures of your staff or employees?

Thank You for Your Assistance

Appendix C.

Cornell University Department of Agricultural Economics
INTERVIEW QUESTIONS FOR COOPERATIVE DECISION MAKING STUDY
Chairman of the Board Questionnaire

All information will be held strictly confidential.

1. When it comes to making decisions, do you think cooperatives are different from other types of firms? If so, in what ways?

2. What is the primary goal of your cooperative?

3. What role does the Board play in long term planning?

4. How often does the board review and monitor the cooperative's goals and objectives?

5. How do you measure your cooperative's performance?

6. As a Chairman, where do you get new ideas and test those ideas?

7. What do you think members view as the role of a director? What do directors view as their role? What does the CEO views as the role of directors?

8. How and when do members exert influence on directors concerning cooperative decisions?

9. A cooperative is unique because members elect directors. What characteristics are members looking for when electing directors?

10. In addition to the qualifications of specific individuals what factors have had an impact on recent director elections?

11. Do you feel directors are generally sensitive to member concerns? If so, why?

12. Do you find that the positions directors take are the result of their concern about being re-elected? If so, why are directors concerned about being re-elected?

13. There are three general ways cooperative members can exert democratic control: a) by voting, b) by voicing their opinions to cooperative management and directors, and c) by leaving the organization. Please rank the three methods on the basis of their importance.

14. Are most board decisions made by a mere majority of the directors or are most decisions unanimous?
15. Are near unanimous board decisions because the vast majority of members and directors favor the policy decision?

16. Do you ever find that directors vote for a proposal even though they or

their members may initially oppose the idea?

17. Do you find that many board decisions are the result of compromise?

18. Does the board periodically evaluate its method of operation and effectiveness? How is this done?

19. Do you feel board meetings make effective use of time?

20. As a Chairman, do you find that directors and members provide unique input to issues and decisions that management has not already considered?

21. Is there "politics" within a board of directors? What is the basis for the politics? What issues are most prone to politics?

22. What characteristics does the typical cooperative board look for in a cooperative CEO?

23 As Chairman, what type of relationship do you try to maintain with the CEO?

24. Sometimes there are conflicts between top leadership in a cooperative. What is the most likely source of conflict between:

    a. A board and the Chairman? How can such conflicts be overcome?

    b. A board and the CEO? How can such conflicts be overcome?

    c. A Chairman and a CEO? How can such conflicts be overcome?

25. In your view, what are the most important factors that have an impact on a productive working relationship between a CEO and Chairman?

    a. What factors most often inhibit a productive relationship?

    b. Are these factors unique to cooperatives?

26. How often and what procedures are used to evaluate the CEO's performance?

Thank you for Your Assistance

Appendix D.

Survey on Agricultural Cooperative Decision Making

Confidential

All firm information will be held strictly confidential. Only data summarized across the entire sample will be presented in this report.

Name and title: ____

Cooperative: ____

Board of Directors Decision Making Information.

1. How many directors sit on the board? ________

2. How are directors elected? by delegates: _____ directly by members:_____ on a regional basis:_____ on an at large basis:____ other:(list)______________________

3. Do you have a delegate system? Yes____ No____ If so,
   a. How many delegate bodies?______
   b. Average number of delegates per body____
   c. What decisions do delegates have control over?________________
   ____

4. How often does your board of directors meet?
   a. Times per year ________
   b. Average length of meeting _____days _____hours.

5. Are there any committees of the board? Yes_____ No_____ If so,
   a. Are they listed in your annual report?
   b. If not please list:

Committee Name:	No. of Members
____________________	_____
____________________	_____
____________________	_____
____________________	_____

6. How often do committees of the board meet?
   a. Times per year __________
   b. Average length of meeting:______ days _____ hours

7. Do directors receive any compensation for serving on the board other than travel expenses? Yes_____ No_____. If so, please describe:
   a. If compensated on a per meeting basis: Amount_____ Number of meetings per year______
   b. If compensated on a per day basis: Amount______ Average number of days per year______
   c. If annual retainer is used: Amount_________

8. Approximately how many days per year does the board chairman spend on cooperative business? Days_______

9. Does the board include any outside directors (i.e. nonmember directors)? Yes______ No______
   a. Number_______
   b. Compensation/year_______
   c. Professional expertise:__________________________________

10. Does the Board make use of outside consultants?

    Purpose______________ Professional expertise:_______________

11. Information received by directors before board meetings:
    a. Are Directors mailed reports before Board meetings? Yes_____No____
    b. How many days before meetings is the material mailed? Days______
    c. What reports are sent to directors on a regular basis?

Type of Report	Average No. of Pages:
______________________________	__________
______________________________	__________
______________________________	__________
______________________________	__________

    d. On average, how well prepared are directors for board meetings? (use scale to rate preparedness)

Poorly Prepared				Well Prepared
1	2	3	4	5

12. Do the Directors have a policy book which summarizes all key policies? yes _____ no_____. If so,

    a. Approximately how many pages does the policy book have?______pp.
    b. How widely is the policy book circulated in the organization?
    ____

13. Do directors participate in educational programs on decision making? Yes_____No______
    If so, what is the nature of educational programs? (check one or more)
    a. ____ Educational programs are conducted internally by staff.
    b. ____ Directors attend outside seminars or workshops.
    c. ____ Consultants are brought in to work with the board.

14. How often are directors contacted by members concerning cooperative policy and issues?
    a. ______ More than once a week
    b. ______ Once a week
    c. ______ Once a month
    d. ______ Rarely

15. How would you describe the nature of member contacts?
    a. _____ Primarily complaints or criticism.
    b. _____ Primarily constructive suggestions.

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(Formerly A.E. Res. Publications)

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No. 93-10	Royalty Collection for Patented Livestock	W. Lesser
No. 93-11	Dairy Farm Management Business Summary New York State 1992	Stuart F. Smith Wayne A. Knoblauch Linda D. Putnam
No. 93-12	Supermarket Prices Redux	R. Chi W. Lesser
No. 93-13	The Structure of the Milk Hauling Industry in New York and Pennsylvania	Eric Erba James Pratt Walter Wasserman
No. 93-14	The Political Economy of a Crop Insurance Experiment	Jerry R. Skees
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