Minutes for NCR-194 Research on Cooperatives

Tuesday, December 12, 2000

Tropicana Hotel
Las Vegas, Nevada

Administrative Advisor:
Dr. Wallace Tyner, Head
Department of Ag Econ
Purdue University
West Lafayette, IN 47907

Chair:
Dr. Joan Fulton
Department of Ag Econ
Purdue University
West Lafayette, IN 47907

Vice Chair:
Dr. Kimberly Zeuli
Department of Ag Econ
University of Kentucky
Lexington, KY 40546

Secretary:
Dr. David Trechter
Department of Ag Econ
U of Wisconsin-River Falls
River Falls, WI 54022

Members in Attendance:

James Baarda, The Ackerson Group, Chartered
Michael Bailey, The Ohio State University
David Barton, Kansas State University
Sanjib Bhuyan, Rutgers University
Michael Boland, Kansas State University
Faabio Chaddad, University of Missouri—Columbia
Kim Coontz, University of California, Davis, Center for Cooperatives
Robert Cropp, University of Wisconsin Center for Cooperatives
Francisco Diaz-Hermelo, Purdue University
Ken Duft, Washington State University
Joan Fulton, Purdue University
Peter Goldsmith, University of Illinois
Brad Gehrke, USDA/Rural Business – Cooperative Service
Jim Haskell, USDA/Rural Business – Cooperative Service
Brian Henehan, Cornell University
Susan Hine, Colorado State University
Julie Hogeland, USDA/Rural Business – Cooperative Service
Thomas Little, National Council of Farmer Cooperatives
Lisa Mancino, University of Minnesota
Maury Miller, Cenex-Harvest States-Land O' Lakes
William Nelson, Cooperative Foundation
Jay Noel, Cal Poly State University
Frayne Olson, North Dakota State University
Chris Peterson, Michigan State University

Burton Pflueger, South Dakota State University
Dick Poorbaugh, Pennsylvania State University
Anne Reynolds, University of Wisconsin Center for Co-ops
Bruce Reynolds, USDA, Rural Business – Cooperative Services
Thomas Stafford, USDA, Rural Business – Cooperative Services
Bill Thomas, University of Georgia
Eric Thor, Southwest Cooperatives
Randall Torgerson, USDA, Rural Business – Cooperative Services
David Trechter, University of Wisconsin – River Falls.
Wallace Tyner, Purdue University
Jennifer Vandeburg, Purdue University
Evert van der Sluis, South Dakota State University
Kim Zeuli, University of Kentucky

Guests Present:

Ji Woong Cheong, North Dakota State University (Korea)

Members Absent:

Bruce Anderson
Juan C. Batista
Michelle Beshear
Michelle Bielik
Joe Coffey
Michael Cook
Paul Christ
Dennis Conley
Sam Cordes
Ron Cotterill
Joel Ebbertt
Vernon Eidman
Charlie Forrest
John Fox
Marty Frick
John Foltz
Murray Fulton
Roger Ginder
Glen Glover
Gary Goreham
Allan Gray
David Hahn
Milton Halberg
Steve Halbrook
Wes Harrison
Bill Heffernan
David Holder
Will Hughes
Constantine Iliopoulos
Leroy Jushak
Robert King
Mahlon Lang
Stephen Lauck
Randall Little
Greg Lawless
Brian Oleson
William Nelson (North Dakota)
Emmanuel Onunkwo
Claudia Parliament
Timothy Richards
Richard Rogers
Jeffrey Royer
Carlo Russo
Richard Sexton
Edward Smith
Karen Spatz
Thomas Spordleder
John Staatz
David Swanson
Michael Thomsen

Mike Turner
Dave Weatherspoon
Robert Weaver
Ruby Ward
Dixie Watts Reeves
Lionel Williamson
Timothy Woods
David Zimet

BUSINESS MEETING

Agenda:

1. Approval of Minutes from meetings of November 4, 1998 and November 12, 1999.
2. Financial Report
3. Report from Nominations Committee – Evert van der Sluis
    a. Election of Officers
4. Report on past NCR 194 activities
    a. Mid-term report presentation – Susan Hine
5. Organization of future activities, including volunteers
    a. Discussion of links between research, teaching and extension
    b. Re-introduction and discussion of NCR 194 sections
        - What is their purpose? Do they reflect the "big issues"?
        - Who are the members of each section
        - Should they be continued and if so, in what capacity?

NCR 194 Annual Meeting

Chairperson Fulton called the meeting to order at 2:00 p.m.

Introductions were started by Joan Fulton. Each participant introduced themselves.

1. Past Minutes. Moved/Seconded/Passed motion to approve the minutes for the November 4, 1998 and November 12, 1999.

2. Finance Report. Joan Fulton reported that the first two meetings of NCR 194 had operated on a cost recovery basis such that registration fees just met meeting expenses. She noted that as NCR 194 continues it will become necessary to establish an NCR 194 account to keep track of funds that are carried from one year to the next and it will be necessary to have someone in the role of treasurer.

3. Nomination Committee. Thomas Stafford presented nomination committee findings and moved to elect the slate of officers consisting of Kimberly Zeuli (Chair), David Trechter (Vice Chair), Robert Cropp (Secretary) and David Barton/Michael Boland (Treasurer). The slate was elected on a unanimous ballot

4. Mid-term Report. Susan Hine presented the mid-term report, which NCR 194 is required to submit. There was little discussion. Members were urged to read and react to the draft report over the next several weeks.

   Wally Tyner reported on the mid-term evaluation process and noted the following process: (1) the minutes and midterm report are to be submitted to Dr. Tyner; (2) Dr. Tyner will evaluate the committee's activities and forward the minutes, midterm report and his recommendation to the NCA committee in January 2001.

   Wally Tyner indicated that NCR 194 had excellent participation from members. He also provided some suggestions with respect to the midterm report but noted that the report was almost complete.

5. Future Directions.

   The following resolution was brought to the floor of the meeting:

   > The NCR 194 "Research on Cooperatives" Committee resolves to strongly urge annual funding of a minimum of $2 million for the Rural Research on Cooperative Opportunities and Problems Program (RRCOP) administered by the USDA's Rural Business-Cooperative Service. This program funds cooperative agreements enabling a partnership between the university research community and USDA's Cooperative Services program. The synergies between these programs leads to creation of new knowledge and insights for improving the operations of cooperatives nationwide.
>
> An important element of research is having the results available in printed form for dissemination to audiences interested in the cooperative method of doing business. The NCR 194 Committee further resolved that adequate budget be provided in the Cooperative Service for publishing the results of research studies and giving them the widest possible dissemination.

   The resolution was Moved, Seconded and Passed.

   Some discussion followed concerning who would be in charge of the resolution activities. The executive committee will work on implementing this resolution.

   Chairperson Fulton posed the following question: "What structure should be implemented to keep the momentum of NCR 194 going?"

   > D. Barton brought up the question of a board; it is mentioned in the minutes that a board was elected. Should this be continued?
>
> J. Hogeland felt a newsletter modeled after Ron Cotterill's group would be a nice addition to NCR 194 efforts.
>
> E. Thor felt we should go directly to producer groups to get feedback.

P. Goldsmith and R. Torgerson discussed co-op theory and applications. Could we afford to do some overall publication? Randy stated that it would be costly and no funds were currently available. Other suggestions: the group could nominate an “editor” to shop this idea around to other outlets; we could do web publishing (K. Duft). R. Torgerson added that constituents prefer a hardcopy.

Discussion was then focused on what form a publication should take? Who is the audience? Generally people agreed that there were two different approaches we should take: “How to” research for co-ops and policy pieces for academics, etc.

Options considered: proceedings papers (over 1-2 years); solicit regional contributors; American Cooperation and Journal of Cooperatives. T. Little encouraged people to submit articles at both outlets, especially needed were any general interest material on cooperatives.

Motion/Second/Passed. The executive committee will also be the board for NCR 194.

Session I: Cooperative Center Updates: Focus on New Producer Groups (Moderator: Kim Zeuli)	
"The Important and Changing Role of Cooperatives and Producer Associations in the Southwest"	Eric Thor, Natalia Usmanova, and Sharon Madson, Arizona State University
Eric Thor reported on the Southwest Cooperative Research Project that is a collaborative program of the Rural Mediation and Finance Training Unit and several cooperatives in the southwest. The project attempts to assist rural cooperatives in successful adjustment to the current economic conditions by providing training and consulting to cooperative members and management. The Southwest Cooperative study has identified almost 600 cooperatives including Native Americana and Hispanic organizations that work in agribusiness in the southwest.	
"The Center for Cooperatives' Role in Cooperative Development"	E. Kim Coontz, Center for Cooperatives, University of California
Kim Coontz highlighted the activities of the University of California Center for Cooperatives during 2000 including publications from applied research projects, cooperative development projects, cooperative education programs and technical assistance. The applied research projects included: "Steps to Starting a Marketing Co-op," "West Coast Cooperative Directory and Resource Guide," and "Comparison of Agricultural Cooperatives in the US & other Western European Countries." The cooperative development projects included a worker cooperative providing housecleaning, janitorial and landscaping services, organic vegetable cooperative, and a Hmong American cooperative of agricultural producers. Educational programs included: a director seminar, an annual cooperatives and communities conference and a cooperative child care project. The second half of the presentation focused on strategies and ideas for working with ethic, racial and other minority groups.	

Session III: Exploring Connections Between Government, Industry, and Academia (Moderator: Joan Fulton)	Panelists: Maury Miller (Cenex Harvest States Cooperative), Randall Torgerson (Rural Business-Cooperative Services, USDA), Tom Little (National Council of Farmer Cooperatives)
The panel members identified ways that representatives from industry, government and academia could build on the positive working relationships that already amongst those working with cooperatives to develop additional connections. General discussion followed the presentation by the panelists during which areas for future research were identified. Key areas needing research were identified including: cooperatives at the crossroads, what is the role of cooperatives in an economy characterized by supply chains, and what is the role of cooperatives in the development of policy and the next farm bill.	

Session IV: Cooperative Finance Issues -- Selected Papers (Moderator: David Trechter)
Francisco Diaz-Hermelo, Edward Smith, Allan Gray, "Strategic Cooperative Financing to Maintain Financial Flexibility, Competitiveness and User/Owner Balance" (Presented by Francisco Diaz-Hermelo)
This paper examined the responsiveness of members to changes in the net prices paid (after cash patronage refund and net present value of allocated equity) by modeling a west Texas cotton cooperative. The author evaluated different cooperative strategies with respect to cash refunds (more refunds increased growth and profitability but slowed equity redemption), equity redemption (reduced profits, growth and sales), and increasing debt to retire equity (increased equity revolvement, growth, sales volume and member cash flow).
Carlo Russo, Dave Weatherspoon, H. Christopher Peterson and Steve Hanson, "A Financial Analysis of the Determinants of the Agricultural Cooperative Investment Decisions" (Presented by Chris Peterson)
The issue examined in this paper is how cooperatives make investment decisions when they have an increasingly heterogeneous membership (particularly with respect to risk preferences). Cooperatives are supposed to increase their members' economic well-being. Since each member has different preferences with respect to level and variability of return, the covariance between farm and co-op returns, the proportion of their portfolio invested in their farm, and risk. Given this, choice of the cooperative's discount rate for use in evaluating investments is difficult to determine. Co-ops could attempt to discriminate across members in choosing investments, invest only in projects that exceed the discount rate of the member with the highest discount rate, choose investments that exceed at least 51% of the members' discount rates, or announce the co-op's discount rate and let members self-select for participation (like New Generation Co-op). Cooperative investment decisions are a political as well as an economic decision.
Michael D. Bailey and Thomas L. Sporleder, "The Real Options Approach to Evaluating a New Generation Cooperative" (Presented by Michael Bailey)
Traditional investment analysis is based on the net present value exceeding zero and assumes a single go/no go decision point. Real options assume that investment decisions can be a series of go/no go decision points and, therefore, provides for greater managerial flexibility. This paper models the investment decision associated with a hypothetical tortilla chip factory. The model that was developed estimates the value of investment flexibility provided by real options.
Ken Duft and Erica Brueckner, "Patron Demand Deposit Account Financing: An Update." (Presented by Ken Duft)

This paper provided an update of a paper presented at the 1999 NCR 194 meeting. Fifty-seven of 64 cooperatives contacted are in the final sample. They found that the Supreme Court ruling concerning patron demand deposits has caused cooperatives to alter their programs. Some cooperatives converted the demand deposit to dated debentures and some just excluded non-members and non-patrons from this program. Marketing cooperatives use these programs much more frequently than do input supply cooperatives. Input cooperatives in the Pacific Northwest don't use patron demand deposits to a great extent because more than 50% of their profits come from regional patronage refunds.
Session V: Advancing Cooperative Theory -- Selected Papers (Moderator: Kim Zeuli)
James Baarda, "Emerging Corporate Theories: New Tools for Cooperative Analysis."
This paper reviewed 5 theories of corporate law: nexus contracts corporate theory, anti-contratarians, trust model, progressive or communitarian theory, and the team-production theory. The author feels that a comparable cooperative legal theory does not exist and that application of the various corporate law theories might have important ramifications for cooperatives.
Bruce Reynolds, "Cooperative Principles as Constraints for Public Goods Production."
Public goods have the characteristics of non-rival/non-excludability of consumption and have particular problems with free-riders. Cooperatives have helped develop a variety of public goods that have benefited the broader agricultural community. The structure of cooperatives makes them particularly adept at developing public goods. This paper examines the development of standards for grains as an example of cooperative involvement in public good development. Cooperatives pushed for the development of standards and their open membership and one person-one vote structure helped speed the acceptance and adoption of these standards.
David Trechter and Robert P. King, "An Analysis of the Relationship between Communications Policies and Member Commitment to Cooperatives." (Presented by David Trechter)
In the popular press and in cooperative boardrooms there are ongoing discussions about member commitment. Because they are formed to enhance members' well being, member commitment is an important issue for cooperatives. Cooperative communication strategies may be one way of influencing member commitment and these strategies are under the direct control of cooperatives. This study focuses on two questions. 1) Do communications influence a member's commitment to their cooperative? 2) Do different segments of the cooperative community respond differently to different communication approaches? The results suggest that the answer to both questions is yes.

Session VI: Perceptions of Cooperative Performance -- Selected Papers (Moderator: Joan Fulton)
Evert Van der Sluis and Paula Loewe, "The South Dakota Soybean Processors Cooperative: Socioeconomic Impacts." (Presented by Evert Van Der Sluis)
This study used a mail survey to follow-up on an earlier case study of the South Dakota Soybean Processors Cooperative (SDSP) at Volga, SD. The goal of the study was to identify the preconditions for successful development of a New Generation Cooperative. Most of the respondents felt that value-added processing was beneficial to the community (84%) but sizable minorities felt that property values (25%) and the environment (24%) were adversely affected. Strong majorities felt that the economic benefits of SDSP exceeded the costs associated with the project (70%) and that the social benefits also exceeded any social costs (80%). Factors associated with successful implementation of a New Generation Cooperative included: working with the community from the start of the project, providing the community with information on the expected environmental, economic and social impacts of the project, presenting the project's business plan, honesty, and high-quality, local leadership of the project.
Lisa Mancino, "How Consumer Characteristics and Preferences Influence Structural Options: A Study of Twin City Natural Food Co-ops."
This paper looks at the trade-offs between greater collaboration and scale on the one hand and consumer preferences for small scale in grocery cooperatives on the other. The author examined shopper preferences in 7 natural foods cooperatives in the Minneapolis-St. Paul metropolitan area. The most important factors for shoppers in all stores was the cooperative's commitment to natural foods and competitive prices. The primary additional benefit shoppers want is reciprocal benefits at other natural foods cooperatives in the metro area. The study suggests that the cooperatives would benefit from more formal cooperation.
Sanjib Bhuyan, "An Examination of Member and Non-member Issues in Fruit and Vegetable Marketing Cooperatives in the Mid-Atlantic/Northeast Region."
The author looked at the attitudes of members and non-members of fruit and vegetable marketing cooperatives in the mid-Atlantic and northeastern regions of the country. The study reports that members join cooperatives because they hope to reduce risk (75%) or increase returns (67%). Non-members fail to join because they think they can achieve better prices outside the cooperative and co-ops are not effective in reducing risk. The report also identifies differences between members and managers with respect to cooperative performance. Managers feel that members get a competitive price and fail to provide leadership to the cooperative. Members feel that the cooperative's price was not very competitive and that they have insufficient voice in the cooperative's affairs.

Session VII: Cooperative Survival Strategies -- Selected Papers (Moderator: Joan Fulton)
Jennifer Vandeburg, Joan Fulton, Susan Hine, and Kevin McNamara, "Driving Forces and Success Factors for Strategic Alliances, Joint Ventures, Mergers and Acquisitions among Local Cooperatives." (Presented by Jennifer Vandeburg)
This study looked at structural change in local cooperatives in Indiana and Colorado and had the following objectives: identify why cooperatives merge, what factors are associated with successful mergers, and determining what drives structural change. The authors found that cooperatives were more likely to merge if they were in Indiana than in Colorado, if they have more lines of business, and if they use information technology. Strategic alliances increased with increases in non-member business and with more lines of business. The driving forces associated with mergers and acquisitions included declining numbers of farms, increasing costs, decreasing profits, increasing local competition, and increasing industrialization. Success factors included high quality member communications, trust, and overall synergies between the merging cooperatives. Fundamentally, interpersonal skills were critical in these outcomes and highlight the need for investment in human capital by cooperatives.
Julie Hogeland, "Local Cooperatives' Role in the Identity-Preserved Grain Industry."
The author surveyed 920 local cooperatives nationwide and found that they fell into three broad groups with respect to involvement in identity preserved grains. The Innovators were early adoptors and tend to be larger. The Followers want to be involved in identity preservation but want to wait to ensure that there is a profit to be made in this effort. Status quo cooperatives are uninterested and uninformed about this market potential.
Brad Gehrke and James Matson, "Is a National Pork Marketing Cooperative Viable?" (Presented by Brad Gehrke)
This paper describes the development of "Pork America" a national pork marketing cooperative. The initiative to create a 3-plant New Generation Cooperative was described as a top-down, politically driven project. The challenges of registering this cooperative in 20 states has slowed the development of this cooperative. The study found that the financial opportunities associated with the project are important but to make it viable, trust is critical.
Peter Goldsmith and Hamish Gow, "Group Action and Structural Change" (Presented by Peter Goldsmith)

This paper notes that with the rapid restructuring in agriculture (fewer and larger farms, consolidation of agribusinesses, etc.) there is great concern about instituting change. The author characterizes some of these changes as “long jumps” that attempt to move cooperatives and their farmer members into markets that are well beyond their current level of knowledge and understanding. The reasons for engaging in long jumps are to take control of their crops, increase returns or decrease variability, or replace lost markets. Success in any venture is tied to core competency and tacit knowledge (knowledge contained in individual experiences). Since these success factors are not likely to be present when a cooperative makes a long-jump, many are likely to fail. The author suggests focusing on shorter jumps in order to improve the likelihood of success.