The Cooperative Firm as Monitored Credit: The Case of West Liberty Foods

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The West Liberty Case: Overview

- Louis Rich announces plant closing
- Turkey growers spurred to action
- Plant purchased by grower cooperative
- Cooperative goes through very hard times
- Manages to survive
- Thrives
- Cooperative converts to LLC (with majority farmer control through ITGC)

Life Cycle Explanations

1. Degeneration: selfish-member hypothesis
2. Wage/price bargaining and asymmetric information
3. Strategic buyouts in imperfectly competitive markets
4. Finance, incentives, and monitoring

Hypothesis Testing

- What do we need to observe to test these hypotheses?
  - Member vs. non-member business
  - Price bargaining
  - Changes in market structure
  - Monitoring intensity

The West Liberty Case: Underview

- Farmers pledge assets
- Communication
- Contracts change
- Farmers learn about turkey processing, food safety, and marketing
- Farmers face enormous business risk

Observations

- No significant non-member business prior to ``degeneration.”
- No price negotiation during initial buyout
- Initial buyout occured when there was NO market

Monitored Finance

- Why would local lenders underwrite a buyout of a failed enterprise?
- Paul Hill, Board Chair of WLF:

``...their ass was on the line 24/7.”

...and the lenders knew it

- Growers pledged significant personal assets and contributed capital directly on repeated occasions.
- Directors were also growers who wanted a successful marketing activity

What did it mean for the firm

- Aligned incentives
  - More communication
  - Better growers contracts
- More costly governance

What did it mean for growers?

- More risk and more work:

``Life in the cooperative is less comfortable.”

- More reward..., but this wasn't a guarantee.