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## Cooperative Director Training: Changing the Way Extension Programs Are Presented

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## Cooperative Director Training: Changing the Way Extension Programs Are Presented

### Abstract

Through a survey administered to agricultural cooperatives throughout Colorado and Indiana, it became apparent that cooperative directors could benefit from new Extension educational workshops that help them understand how to run a successful cooperative. Through a newly designed hands-on certification Extension program using cases, interactive exercises, and a simulation, directors have been given many opportunities to interact with members of both their own cooperative as well as other cooperatives around the state. First-year evaluations have been very high, and some cooperatives are requiring that their directors get certified through this program if they wish to remain on their respective boards.

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## Introduction

All sectors of agriculture are in the midst of dramatic change, often referred to as the "industrialization of agriculture" (Boehjle, 1999; Drabenstott, 2000). Agricultural cooperatives are no exception. Vandeburg, Fulton, Hine, and McNamara (2000) identify that the driving forces behind restructuring of locally owned cooperatives, through mergers, acquisitions, joint ventures and strategic alliances, are decreasing numbers of farms, increasing costs, industrializing of agriculture, increasing competition, and decreasing profits.

Agricultural cooperatives are member-owned businesses and as such operate with a Board of Directors consisting of farmers who are these member owners. In order for cooperatives to be competitive, their Boards of Directors must have skills in management, governance, strategy, and finance. This is true for any Board of Directors--no matter their business form (Gallagher & Andrew, 1997).

We further identified the needs of this group by administering a survey to agricultural cooperatives throughout Colorado and Indiana, and some of the information elicited from the respondents showed how these same trends were also evident in these two states. Although not all situations were the same between the two states, there really were few differences in results; thus, aggregating the data gave us a larger number of observations and more insights.

Additionally, the responses indicated a need to build skills for communication and effective

decision making as a result of today's ever-changing market conditions. In fact, some of the responses showed how directors could potentially benefit from new Extension programs. This article describes the results of the study and how it was put to use to generate a new format for Extension director training in Colorado. This Extension format used in Colorado could be easily applied to other director training programs throughout the country.

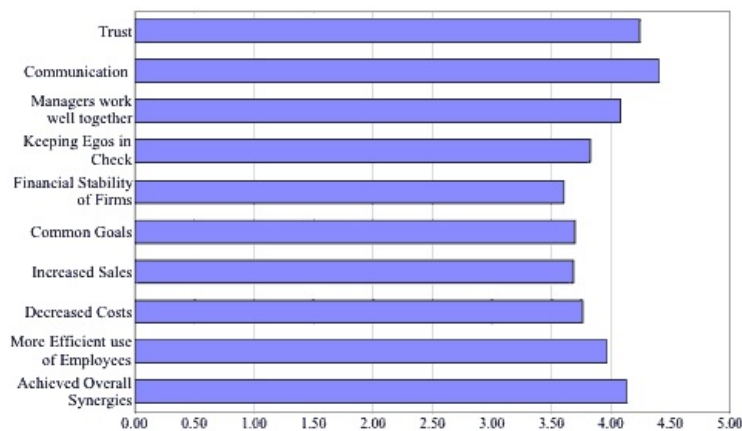
## Data

Our first goal was to determine the needs of cooperative managers and directors, which was accomplished through in-person interviews with the general managers of 70 locally owned agricultural supply and marketing cooperatives in Indiana and Colorado. These surveys were conducted during May and June of 2000. To ensure consistency of the data collected, each interview used a standard survey instrument and was conducted by the same interviewer in each state. The managers were very supportive of the research and willing to share information about their cooperatives, resulting in interviews that averaged 90 minutes in length, but varied from 45 minutes to 2 1/2 hours. The survey instrument had five parts; however, the relevant sections for this study included:

- Section III: the managers were asked to rate, using a 5-point Likert scale, the importance of driving forces and success factors for mergers, acquisitions, joint ventures, and strategic alliances. The managers were also asked open-ended questions about business trends and the impact of the changing agribusiness environment on their cooperatives.
- Section IV: the managers were asked a series of questions about the cooperative's financial performance as well as its decision-making process.
- Section V: the managers were asked a series of open-ended questions about emerging issues facing cooperatives.

From this information, the following categories surfaced as extremely relevant factors for successful cooperative alliances and thus important factors for the director training program (Figure 1).

**Figure 1.**  
Success Factors for Mergers and Acquisition in Agricultural Cooperatives\*



Ratings were assigned on a scale from one to 5 with 5 representing "very important."

For a more rigorous analysis, see Vandeburg, Fulton, Hine, & McNamara, 2000.

As noted in Figure 1, all factors have a value greater than 3.5 on a 5-point scale indicating that all were important or very important.

It became readily apparent that many of the success factors among all types of cooperative alliances were in one form or another related to communication skills, from trusting one another to actually keeping egos in check. The ability of directors to effectively communicate with each other (either within their own cooperative or with directors from other cooperatives) thus became a focus of our training development program. We realized that it would not be enough to instruct directors on ways to improve the profitability of the cooperative; rather, we had to have a format that encouraged and improved overall communication skills among directors while providing them with the necessary skill set that allowed their cooperatives to be successful.

It is interesting to note that these results are also consistent with observations from non-agricultural business sectors. The *Harvard Business Review* (2000) reported that chief executive officers (known as the M&A Group) from leading businesses across a wide range of sectors identified communication as one of the most important factors for the success of mergers and alliances. Thus, it was very apparent that our cooperative director training program needed to include communication-, trust-, and team-building exercises.

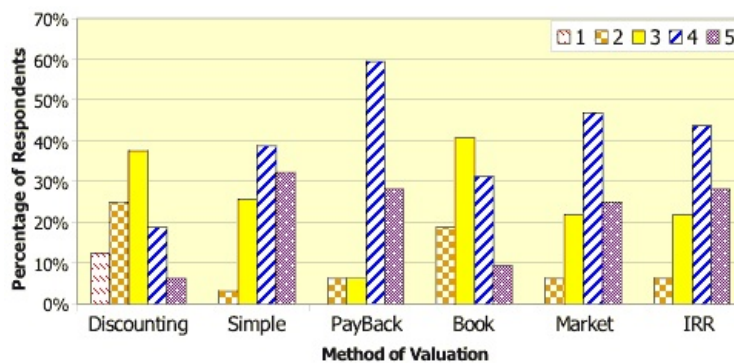
Because profitability was key to the success of any cooperative venture, we also felt that it was very important to discover the level of financial ability of the managers and directors. For this reason, the survey also focused on capital budgeting techniques employed by the cooperative. As a result, we found that managers and directors were not using the most appropriate capital budgeting techniques (Figure 2). Six common business evaluation methods used in investment decision-making processes are net present value (NPV) or discounting, simple interest rate (simple), payback, book value, market value, and internal rate of return (IRR). We will not go into detail about how these individual techniques are calculated but would refer the reader to Gallagher and Andrew (1997).

The bars in the graph represent the number of respondents who rated each of the methods from 1 through 5, with 1 being unimportant and 5 being very important. According to the finance literature, the net present value (discounting) evaluation method is the preferred approach for business evaluation since it incorporates the time value of money (Gallagher and Andrew, 1997).

For example, this method discounts all future net cash flows at a predetermined investment rate that would be used by the business as a hurdle rate for new venture decisions. If the resulting dollar amount is positive, then the new venture would earn at least the specified rate of return and the project should be a go, all else equal. It should be noted that IRR also incorporates the time value of money but is less preferred because of the assumption that all cash flows are reinvested at the same rate. Again the reader is referred to the Gallagher and Andrew text (1997).

It is interesting to see that most managers preferred the more simplistic payback method, with 89% responding with a 4 or 5 rating while only 17% considered discounting to be important. This finding further demonstrated to us that understanding the importance of financial analysis and capital budgeting techniques needed to be included in our training program. We now had much of the information needed to design the director training Extension program.

**Figure 2.**  
Rankings of Capital Budgeting Methods Employed by Agricultural Cooperatives



## Program Development

After a series of planning sessions, our program committee decided to divide the director training program into three tiers, each tier consisting of 2 days of Extension training. The committee consisted of four representative members: a university associate professor, the executive director of the Cooperative Council, a representative from Co Bank, and a manager from one of the state cooperatives. We are currently offering two tiers at a time, three times a year. Tiers One and Two provide directors with the management, governance, strategy, and financial skills necessary in the boardroom. Tier Three, however, is completely focused on helping directors develop better communication and decision-making skills while enhancing what they have learned in the previous two tiers.

It is important to note that a key component in our design was related to the high ranking of the communication-related variables obtained from our survey. As a result, we decided to change the format that is often found in director training programs throughout Colorado (as well as other states) by incorporating a strong interactive component. It was felt that if directors were going to be induced to attend *yet another* Extension training program, it needed to be innovative while providing them with the necessary tools for running successful cooperatives. Sitting and listening to someone speak in a seminar format often is not a satisfactory approach any longer.

To meet this challenge, we decided to intersperse small case vignettes combined with interactive exercises throughout the training in Tiers One and Two, where the directors learn the management, governance, strategy, and financial skills. Tier Three, on the other hand, involved designing a simulation that would allow participants to achieve the maximum level of communication and trust building skills, while at the same time let them apply the tools learned in the first two tiers. Following is a more detailed discussion of the individual three tiers and how they work together to provide directors with an effective training program.

### Tier One

Tier One is a 2-day program that combines introductory governance issues with those of beginning

financial and equity management. During the first morning, the directors receive training in basic governance issues, including Board and CEO teamwork as well as general board responsibilities. The instructors still make presentations; however, unlike traditional training, these instructors have been asked to intersperse their presentations with exercises and cases that the directors are asked to analyze while working with each other in an informal setting.

In order to facilitate group work, participants are seated with other board members from their individual cooperative, with no more than six at any one table. Occasionally, directors are asked to move to other tables in order to learn about different approaches used by other cooperatives in the state; however, most prefer to have the time to work together with their cooperative directors. It provides them with an opportunity to come to consensus together--to learn to work with each other--on various problems that they are asked to solve throughout the day. They like the idea of working together as teams to solve problems, a necessary tool in the boardroom.

The afternoon starts with a legal session where attorneys are asked to first present material on legal foundations and responsibilities of cooperative directors, but again, in keeping with the interactive format, the presentations are kept to a minimum. Following the presentations is a question-and-answer (Q&A) session where the attorneys are asked to act more as a panel to answer common questions that are collected from participants prior to the session. Questions related to the topics are provided to the attorneys should no questions be forthcoming; however, once discussion starts, directors are more responsive and tend to ask more questions. The final session of the day is focused on policy governance and uses the presentation and exercise/case format.

There is a dinner at the end of the day in which directors from all tiers participate. Because directors start the training at different times of the year, this dinner provides an opportunity for everyone to get together and discuss what has been going on in the different sessions throughout the day. After dinner, a series of tables are arranged around the room where various presenters from the day (as well as other invited panelists expert in the topics offered) host a question-and-answer session on topics already covered that day or panelists will also address any additional questions that directors may have. Board members are then given the opportunity to move from table to table for a period of about 15 minutes to ask their questions or just "listen in." The tables are organized by topics including (but not limited to) finance, governance, and equity management.

Day two focuses on an introduction to finance, during which a variety of exercises and cases that help directors learn how to read and interpret financial statements are included. The second part of the day provides an introduction to basic cooperative equity management and redemption strategies. Again, as in the case with day one, an emphasis is placed on the use of cases and exercises for enhanced understanding and interaction.

## **Tier Two**

The format for Tier Two is similar to that of Tier One. The content is just different. The first day consists totally of an introduction to strategic thinking, including topics on strategy formulation and implementation. The entire day is spent with a dynamic presentation and interaction process that has been so stimulating that participants are very motivated to try out these new techniques once they return home.

Day two is focused on more advanced governance issues, with emphasis placed on director and management evaluation, compensation and recruitment of management, and creating a high performance board. Again, the emphasis is on using exercises to get relevant points across to the audience.

## **Tier Three**

Tier Three's objectives are two-fold: to give directors an opportunity to practice the skills developed in previous tiers within an experiential learning setting and, perhaps more important, to create an environment of open communication that encourages board members to broach difficult topics related to their own cooperatives. In this setting, the decision-making process is emphasized rather than the decision itself. Participants are challenged to gather pertinent information from complex scenarios, listen to the opinions of others, and make decisions rather than tabling difficult problems.

The experiential learning exercise is centered on a simulated business, Farm Country Cooperative, whose board of directors meets in six sessions over the period of 1 year to address representative cooperative issues (e.g., establishing equity payouts, closing down inefficient operations, or deciding how to go about handling redistricting issues). The board's decisions are recorded, and individual board members must provide a rationale for their decision on "input" sheets. The input sheets contain leading questions that encourage participants to place their decision in context. As an example, board members are asked to discuss how a merger decision relates to the overall strategic direction of the cooperative.

The simulated cooperative's board composition facilitates learning. Specifically, Tier Three students are divided into groups of six who serve as Farm Country's Board. The groups are chosen

so that no two members of Farm Country's board actually serve together on their own board of directors "back home," nor are they paired with a cooperative manager with whom they work. Consequently, individuals may be able to ask questions and share ideas and opinions more strongly than they might within a group of their hometown peers.

In addition, the board members play different roles with each board meeting, so that everyone has the opportunity (and obligation) to adopt a leadership position. The chairman of the board rotates after each session, as does the role of the board secretary, and the cooperative manager. At the end of the six simulated board meetings, every individual has had a leadership opportunity in their group. Each table's facilitator ensures that the relevant information such as the board's meeting agenda is followed and occasionally will ask questions to generate discussion.

A unique feature of each simulated board meeting includes the "rogue" board member who is responsible for raising difficult issues that the board must address. (The rogue board member rotates among the participants as well, and the facilitator provides directions for this individual). The rogue's comments generate discussion and thought--participants enjoy playing the rogue's role by arguing divergent views (e.g., it's time to fire the manager!). Playing the rogue is particularly valuable for introverted board members who need an icebreaker to fully participate in Tier Three training. Rotating the rogue role, as well as the other roles, creates a level of shared experience and trust among the Tier Three participants, encouraging them to share ideas with each other more readily.

The simulated issues faced by Farm Country Cooperative are timely, complex issues with which cooperative boards frequently must deal. Most board members have confronted or considered similar situations, so during a simulated board meeting these participants fall out of their designated roles and discuss how their hometown cooperative addressed a similar issue. Ex post anecdotal evaluations suggest this is one of the most valuable contributions of the training.

Likewise, each simulated board meeting ends with a general session eliciting the three most important lessons learned during that session. The board facilitators coordinate the general session, asking individual Farm Country Boards to discuss the process involved in making their individual board's decision. The decision process is contrasted against the experience of other Farm Country boards, and a general agreement is made about the most important learning points. These summary points are typed and distributed among the Tier Three participants at the conclusion of training.

A final note needs to be made on the Tier Three experience. Board members are separated from their hometown peers to participate in simulations; however, significant break opportunities, meal times, and evenings are kept free from structured activity. Often, the hometown boards talk about the day's training during this free time, and then discussion shifts to the issues that the hometown board of directors face. A direct result of the training, then, is creation of a focused communication opportunity.

## Results

The results from our three-tier Extension training programs have been extremely encouraging. Not only have the written evaluations been extremely high, but also attendance continues to grow simply through "word of mouth." As an anecdote, we have learned that some cooperatives are actually planning to require board certification, which can be earned by attending all three tiers. Only through this certification process will directors be allowed to remain on their respective cooperative boards. See Tables 1 and 2 for a summary of evaluations received for the first two tiers. The percentage numbers represent those respondents who answered excellent, good, bad, or poor to the topics listed. It's interesting to note that the vast majority of the respondents (over 94%) gave either a good or excellent rating for the various categories.

**Table 1.**  
Evaluation for Tier One

<b>Tier 1</b>	<b>Bad</b>	<b>Poor</b>	<b>Good</b>	<b>Excellent</b>
Cooperatives & Cooperative Management	0.00%	0.00%	67.74%	32.26%
General Board Responsibilities	0.00%	0.00%	54.84%	45.16%
Legal Foundations of Cooperatives	1.06%	3.19%	59.57%	36.17%
Legal Responsibilities and Issues	1.06%	3.19%	59.57%	36.17%
Policy Governance	0.00%	1.08%	53.76%	45.16%
Introduction to Cooperative Finance	0.00%	1.08%	56.99%	41.94%
Cooperative Financial Analysis	0.00%	2.00%	26.00%	72.00%
Cooperative Financial Objectives and Budgets	0.00%	2.27%	31.82%	65.91%

Cooperative Equity Management	0.00%	2.53%	31.65%	65.82%
Length of the Program	0.00%	6.67%	72.22%	21.11%
Workbook and Handouts	0.00%	1.11%	48.89%	50.00%
<b>Total</b>	<b>0.22%</b>	<b>2.08%</b>	<b>53.67%</b>	<b>44.03%</b>

**Table 2.**  
Evaluation for Tier Two

<b>Tier 1</b>	<b>Bad</b>	<b>Poor</b>	<b>Good</b>	<b>Excellent</b>
Introduction to Strategic Thinking	0.00%	0.00%	67.74%	32.26%
Introduction to Strategic Formation	0.00%	6.45%	61.29%	32.26%
Intermediate Strategic Formation	0.00%	6.45%	58.06%	35.48%
Strategic Implementation	0.00%	0.00%	45.16%	54.84%
Introduction to Board Evaluation	0.00%	6.45%	45.16%	48.39%
Introduction to Manager Appraisal	0.00%	6.45%	45.16%	48.39%
Compensation and Recruitment of Management	0.00%	12.90%	48.39%	38.71%
Creating a High Performance Board	0.00%	3.23%	45.16%	51.61%
Length of the Program	0.00%	13.33%	63.33%	23.33%
Workbook and Handouts	0.00%	3.33%	46.67%	50.00%
<b>Total</b>	<b>0.00%</b>	<b>5.84%</b>	<b>52.60%</b>	<b>41.56%</b>

Additionally, we have included some individual comments provided by participants.

- It is like the difference from day & night from previous years.
- Great program.
- It is interesting, informative, and should be helpful.
- Thurs afternoon programs on Equity Redemption was excellent.
- Excellent program.
- Good information to take back home.
- Tier 2 was even better than tier 1 good job.
- I thought the whole program was excellent very educational.
- Well worth the two days.
- As a new director, I find that much of the information will help me to become a more effective part of the board.
- Extremely insightful and mind broadening.
- Look forward to more.
- All presenters kept my attention and challenged thinking.

We completed Tier Three for the first time in February 2005 and have not as yet put the evaluation numbers together, but as a note, general comments indicate that participants feel this tier was by far the most beneficial and enjoyable part of the training. In fact, some indicated that they wanted to come back in a year and go through the entire Tier Three again with a different group. The experience gained from communicating with other board members from around the state was extremely important to them.

## Conclusions

Finding new ways to conduct Extension programming is extremely important in today's agricultural environment. The competition for producers' time is steadily increasing, and they need to know that the time they dedicate to Extension programs such as this one is going to be worthwhile. To that end, the results of our initial year of training have been very encouraging, and we are excited

about where this type of programming can lead us in the future. If the past is any indication of future results, cooperative board directors should continue to be supportive of this overall training program.

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