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The Role of Management Behavior in Agricultural Cooperatives: Discussion

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Professor Cook begins by observing that relatively little research on agricultural cooperative management has been conducted. He offers some reasons why and goes on to test claims by recent researchers that cooperative management is different, if not more difficult, than management of an investor-owned firm (IOF).

Cook uses Mintzburg's taxonomy of managerial roles to compare cooperative management to the management of IOFs (Mintzburg 1971). He concludes that the successful management of a cooperative requires all of the skills used in managing an IOF and, in addition, requires:

- comfort in dealing with vagueness, complexity, and conflict surrounding the objective function of the cooperative;
- superior human resource management skills because of limited access to risk capital;
- communication skills and understanding of the user/owner stakeholder conflict inherent in cooperatives; and
- leadership in managing a wider range of objectives and associated subgoals.

Professor Cook is correct. In a given market, the agricultural cooperative manager does indeed need all, and sometimes more, of the skills possessed by the manager of an IOF to successfully manage a cooperative. However, the degree of difference varies according to the type of cooperative. It should also be considered that if cooperatives make sense at all, there must be some aspects in which they are also *easier* to manage than their investor-owned counterparts.

First, in any single cooperative, the members and their directors may have a wide range of expectations. Some expectations are in conflict because the members are both users and owners. Still others are in conflict because of differences in the situations of individual members. As a consequence, the task of consensus-building (agreeing on an objective function) in a cooperative is substantial. In some cooperatives, this task is much more difficult than in others.

Second, because the consensus-building task is so great, superior conflict resolution, communication, and leadership skills are needed. At this

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point, I would restate Cook's first conclusion, that a cooperative manager has to be "comfortable with vagueness, complexity, and conflict." I am more inclined to say that the manager's ongoing challenge is to focus, simplify, and reconcile the vagueness, complexity, and conflict associated with the management of a user-owned business. Failure to do so puts the cooperative at an inherent disadvantage relative to competing firms. Top management must identify and understand the full range of member expectations and then show how those will be satisfied only through superior market performance.

Finally, cooperatives are not designed to attract risk (equity) capital. They are designed to reward use, not investment. This fact also puts greater demands on top management, since cooperatives must compete with firms that can reward investment *per se*. While Dr. Cook points out the resulting need for careful management of human resources, the fact that risk capital is relatively scarce for cooperatives suggests to me that their managers should also be judicious in using this resource.

Points of Agreement

This topic is timely at the Center for Cooperatives. In the summer of 1993, I interviewed twenty directors and chief executive officers (CEOs) of agricultural cooperatives. My aim, in an open-ended interview, was to identify director education needs. Several directors expressed a need for research on how to select and evaluate a cooperative CEO. Since then, interest in this topic has been independently and spontaneously volunteered by directors in several different settings. In response, the Center funded such research and will offer a conference on the subject late in 1994.

The reasons I agree with Professor Cook are shown by demonstrating how his analysis of Mintzburg's work applies to my independent experience with director education. Cook's claim is consistent with two sets of conclusions I recently presented at workshops for directors of California cooperatives. After outlining these conclusions, I will interpret them in light of Cook's analysis.

In a basic course for directors, the Center for Cooperatives maintains it is harder to direct a cooperative than to direct an IOF where there is generally a very clear relationship between market performance and the interests of *all* stockholders. Market performance that enhances earnings or earning potential will be reflected in yield and/or appreciation for all stockholders. Presumably, these are the principal interests of investor-stockholders.

In cooperatives, the link between market performance and member satisfaction is sometimes clear, but this is not always the case. Market requirements in a marketing cooperative (variety, quality, location, or other raw product characteristics) or in a supply cooperative (product lines and service levels) that best serve profitability goals of an investor-owned business may not directly serve the *immediate* interests of *all* cooperative members. If a truly market-driven approach is taken by a cooperative, members with less marketable inputs or those who have unusual or otherwise costly supply preferences may not, by comparison to other members, feel their needs are well met. The pressure to match members' raw product supplies with market demands or to match profitable input marketing with member demands presents a major challenge for cooperatives that directors of an IOF would never face.

If these potential conflicts between user-owner and user-investor present a challenge to the board, they clearly challenge the CEO. He or she is one of the first to feel torn by the need to satisfy market demands as well as the conflicting needs of members. The CEO knows that if the market is not well served, all members will lose in the long run.

The CEO recognizes this challenge for the following reasons:

- A cooperative cannot "give" anything to its members that it does not earn by competing successfully in the food system
- Cooperatives must adjust to change in the competitive environment if they are to continue to provide benefits to members
- The single most important way for cooperatives to serve members is through superior performance in a rapidly changing food system

Cooperatives increase member returns only through market or "user" benefits that encourage member business. The efficiencies required to deliver these benefits are not created by forcing the market to meet producers' demands (in a marketing cooperative) or by expecting members to accept non-competitive performance (in a supply cooperative). They are, instead, achieved by *harmonizing* the interests of member-owners, as farm-product sellers or as farm-supply buyers, with the demands of the market.

To harmonize the interests of cooperative members with the market is to define a viable market segment, show members how they can benefit by being responsive to that market, and/or make sure pricing, patronage refund, cash refund, and equity redemption policies all reward individual members for responding to market demands (marketing cooperative) or buying from the cooperative (supply cooperative). Harmonizing the interests of cooperative members with the demands of the market requires every form of managerial skill mentioned by Mintzburg (1971). It also requires that they be applied to a wider array of interests than would be addressed by the CEO of an IOF in the same industry.

When it is Most Difficult to Manage a Cooperative

In an investor-owned business there is a clear, close correspondence between rewards to the *investor* owners and market performance. The highest long-term rewards to investors will result from the highest long-term service to consumers.

In the best cooperatives, this is also true. However the relationship between market performance (as measured by long-term profitability of the firm) and the interests of *user* owners is not *naturally* clear and close. Further, the potential for harmony varies by type of cooperative. The greatest potential for close correspondence between the interests of the market and the interests of user-owners is found in marketing cooperatives. The greatest potential conflict between market performance and the interests of user-owners is seen in consumer (supply) cooperatives.

The potential for correspondence between market and user-owner interests is highest in a marketing cooperative because the greater the customer market satisfaction, the greater the potential market reward and the greater the potential cooperative earnings. This correspondence between market performance and user-owner benefit is *potentially* clear and direct. Management's efforts to reconcile interests of markets with those of members could be addressed at great length. In brief, they may appear as member resistance to discount and premium programs that reward members for meeting time, form, and place requirements imposed by the market.

There is an inherent conflict between market and member interests in a supply cooperative. The members are user-owners. As users, if all else is equal, they (like other customers) prefer low prices. As owners, they know, or must learn to know, that the ongoing maintenance of service capabilities and high levels of performance require investment to meet service and other market demands. These require earnings and capital accumulation.

Supply cooperative management is therefore challenged to provide supplies on highly competitive terms to all customers (member and nonmember) and, in the process, to generate earnings sufficient to maintain operations, distribute patronage refunds, and retire equities. Even then, members may argue that they would prefer direct benefits in the form of lower (even sub-market) prices, sometimes forgetting that capital is required to sustain performance and retire equities. Continued earnings are no less critical to the cooperative than to the IOF.

Still another challenge facing cooperative management is that of balancing interests of current members against interests of retiring members. Current members are more interested in customer service and return on equity. Retiring members are more concerned with the retirement of their equity. Treatment of both sets of interests is important in terms of the expectations they create for potential members who watch to see how the cooperative treats its members. While the board has the ultimate responsibility of allocating earnings, management may spend more time evaluating alternatives and framing the questions ultimately posed to directors.

When a Cooperative is Easier to Manage

Clearly, cooperative managers face many challenges that managers of IOFs do not need to address. However, the long-term success of many cooperatives is testimony to the fact that cooperatives *meet real needs* in the face of competition from IOFs. However frequently members take their cooperatives for granted, they continue to provide equity passively and actively for user-owned companies (cooperatives), even when investor-owned alternatives are available.

This fact alone suggests an advantage for managers of cooperatives relative to IOFs. If, in some circumstances, members prefer their cooperative over other firms, they are, in some respect, easier to manage than IOFs.

The source of advantage to cooperatives has to be in user value. The significant economic difference between a cooperative and an IOF is user ownership. If there is an economic reason for cooperatives to survive, it is because there is something about user ownership that permits cooperatives to add value to or cut costs from the food system in ways that IOFs cannot. If such sources of user value cannot be found, there is no *private* economic reason for cooperatives to exist.

There is at least one *public* economic reason for cooperatives. This is the long-standing notion that cooperatives provide a competitive yardstick to keep IOFs "honest." In this regard, it is important to remember that cooperatives must operate efficiently to keep anyone honest. Therefore, it remains important to identify the source of user value in cooperatives.

If user ownership gives a cooperative a competitive advantage, this eases the management challenge. Therefore, the concept of user value is central. The full meaning of the term cannot be addressed here; therefore, I list only likely sources of user value. These include identity preservation and close coordination that add value to final food products. Critics rightly argue that these are achievable through vertically integrated firms of any sort, including cooperatives. This merely shifts the debate to the performance consequences of cooperative and investor-owned vertical integration. Other sources of user value include cost savings through risk reduction. Cooperatives that assure supplies or provide a "home" for crops reduce risk (costs) to members and may enhance stability in the food system.

The potential benefits of cooperatives to members (user value) also vary by commodity. Products vary in terms of perishability, continuity of production, homogeneity, value-weight ratios, raw product share of consumer product value, and others. A model that uses these characteristics to predict coordination requirements may offer hypotheses regarding where cooperatives work best and why. For example, such a model may indicate that potential user value is greatest where there is continuous production of a highly perishable commodity that is transformed relatively little before final consumption (milk) and explain why cooperative marketing is common in the milk subsector. The same model would identify other characteristics to show why cooperatives are less likely than other forms of coordination to be used in livestock marketing or more often in stonefruit marketing.

Conclusion

Cook has accurately identified the principal reason for difficulty managing agricultural cooperatives. The challenge of harmonizing inherently conflicting member interests to be responsive to the market is unique to user-owned (cooperative) firms. This requires more organizational, communication, resource allocation, and other leadership skills than is required of the managers of IOFs in the same market.

At the same time, and for the same reasons, the degree of difficulty in cooperative management varies according to the type of cooperative. The potential for high and clear correspondence between member and market interest is greater in marketing cooperatives than in supply cooperatives. This is because there is an inherent conflict between user and owner interests in supply cooperatives that is not necessarily present in marketing cooperatives.

Finally, if there are economic reasons arising from user ownership for cooperatives to exist, there are surely circumstances that ease the relative management challenge in cooperatives. If user ownership adds to final product value or reduces producers' costs in ways that IOFs cannot, it reduces the management challenge in some respect.

Reference

Mintzburg, Henry. 1971. Managerial work: Analysis from observation. *Management Science.* 18:897-B110.