How Culture Drives Economic Behavior in Cooperatives*

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Abstract

The core cognitive foundation of cooperative values, norms and beliefs can need updating and refurbishing just like the hard economic assets of plant and equipment that maintain their visible, outward structure. Import competition, agricultural industrialization, and market failure have led cooperatives to question beliefs which put the survival of the farm above the cooperative. Jeffersonian agrarian values contributed to a culture where cooperatives were run for the needs of farmers, not consumers. This led cooperatives to over-expand into commodity areas that were not economically sustainable. Or, cooperatives compensated growers for poor production decisions at a cost to other members. These values were based on a cultural model that "cooperatives were like a family." Trying to provide a small town personal ambiance and the efficiencies of large scale production within the same organization is a cultural model that cooperatives used to "be all things to all people". Farmer attrition has forced cooperatives into adopting a core business focus where co-ops shed all businesses except those they can do very well. This cultural transition has been aided by agricultural industrialization's focus on the farmer as individual "farm manager", in contrast to the idealized Jeffersonian farm family. Cooperatives are now seen as separate and independent of the farmer, not as an extension of the farm, giving co-ops greater latitude to be more market driven.

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Introduction

Culture drives economic behavior. This can be seen in the way the concept of service offered by regional and local grain, farm supply and citrus cooperatives in the US has evolved in the last 20 years. Service started out being a producer-driven concept associated with cultural expectations of entitlement. The institutional framework for realizing these expectations was created by multi-commodity cooperatives such as Farmland, Countrymark, and Agway. Intense competition for members led cooperatives to diversify by adding on services that reinforced members' primary identity as producers. Farmer attrition and the resulting cooperative shake-out has led to service becoming defined as a market-driven concept, where the needs of the customer have become paramount.

The institutional framework has evolved into an industrialized system of agriculture; backgrounding producers as a cooperative identity has coalesced around participation in value-added food chains. For cooperatives, the spotlight is now less on producers as potential members than on the attributes of what members produce – consumer appeal, marketability, safety, exclusivity, variety, shelf life.

Cooperatives now diversify by allocating grower product among alternative intermediate and end use markets carrying different degrees of risk and return. Being a low cost, nimble supplier, increasing shelf space, or hedging against import competition by partnering with foreign suppliers, are the new ways service is being defined.

Cooperatives have pulled up their roots. Entrenched cultural messages encouraging farmers to produce without the back-up of profitable markets are out of sync with cooperatives' contemporary needs. As long as the US enjoyed a prominent position in world markets, goals that followed from commonly-held beliefs about cooperative marketing could pass without close scrutiny. When domestic labor and land costs became comparatively high in the aftermath of world economic development and trade liberalization, the US became an intermittent, swing supplier to important markets. Moreover, in the 1990s, Wal-mart changed the "rules of the game" by introducing the concept of "everyday low prices" into American retailing (Schneider:1998: 295). Competitive pressure intensified when Walmart spread this concept worldwide by opening stores in Indonesia, Argentina, China, Mexico, Brazil, and Canada (Schneider:1998:294).

The question, "who do we serve?" has always been important for cooperatives. Most have organizational features – open membership and minimal equity demands – that, in an organizational culture prizing sensitivity and reactivity to member demands, create a vulnerability to loss of focus and financial stress. As cooperatives become more market oriented and enter new, "foreign" markets to preserve the financial integrity of their organizations, this question can take on additional meanings, the topic of this study. Fundamentally it is a question of, "how do we compete?"

Typically, economists have not paid much attention to culture. Economists treat most decisions as a matter of prices and quantities or financial considerations like interest rates. Cooperative management, members and directors also have not explicitly considered culture. When decisions diverge from economic considerations, the cooperative community typically regards the decision-making process as "political." This does not mean a political party, but refers to the variety of commodity interests, geographic interests, or farm organization affiliations that can subtly influence cooperative agendas on a day-to-day basis.

Underlying these is a more fundamental, unified aspect of cooperative culture, reflecting common understandings of what cooperatives should be like, the values they encompass, and so forth. They typically include:

- being altruistic, not exploiting the business for a profit;
- emphasizing service over making money;
- valuing the "small and personal" over the "large and impersonal;
- displaying an unwillingness to let go of relationships, things, or places;
- allowing the cooperative to assume risk on behalf of producers;
- attaining self-sufficiency to minimize farmer dependency on those perceived as outsiders;
- preferring to subordinate individual goals to the good of the whole; and
- valuing equality ("treating everyone equally").

Collectively, these are the social mores of a group that is more like a family than a business. Together, they form a schema or metaphorical framework – "cooperatives are like a family" – that can provide insights into multiple dimensions of cooperative behavior.

These themes were drawn from some 30 interviews conducted with regional and local cooperative management in the years 2000/2002. During the interviews, managers provided examples of expressions or language that represented traditional ways of talking about cooperatives and alternatives reflecting the contemporary issues cooperatives are facing. This give-and-take is an example of how cooperatives are socially constructed in the day-to-day transactions, consultations, and informal exchanges that routinely occur between members, management and staff.

Governance is usually considered to be the primary influence in cooperative organization. Yet, even informal interchanges between management, staff, members and nonmembers provide a setting for expectations to be expressed and mediated through language, allowing new understandings to be reached about the boundaries, dimensions, or role, of the cooperative. How these expectations are resolved can have a significant effect on transaction costs, or the efficiency of equity allocation within the cooperative. Social construction through everyday language gives cooperatives a dynamism and fluidity that is not possible through the time-bound ritual of governance, which is necessarily limited and contingent.

Cooperative managers are increasingly asking members to examine taken-for-granted beliefs about how cooperatives should compete. Implicitly, managers are also asking members whether the "cooperatives are like a family" construct and the values it encompasses – service, altruism, etc. – are primarily the values needed for organizational survival in an economic climate that differs considerably from the era when most cooperatives were established. Member expectations are often based on the continuity of business experience they have had with the cooperative, sometimes extending through multiple generations, as in the case of Land O'Lakes and Sunkist. Managerial expectations of members are often affected by more immediate and pressing concerns, such as import competition, the need for the cooperative to grow or keep up with competitors, and potential capital shortages triggered by farmer attrition.

Language is a tool used by managers to strengthen and redefine cooperative identities so that social relations (the familial core of cooperatives) becomes a mechanism reinforcing efficient use of existing assets and equity. Repeated acts of communication can develop a consistent set of expectations between members and managers that create the basis for a specific organizational culture. In short, the cooperative will mean the same thing to members and managers. Culture represents shared systems of meaning, including values, priorities, and beliefs. A focused organizational culture gives a cooperative a sense of mission that makes it a formidable competitor. New Generation Cooperatives have attracted strong producer interest because they have a clear-cut purpose and focus. Older, multi-commodity cooperatives were created in an era when altruism, a core cooperative value, mattered greatly to producers but it is of relatively less importance to members of contemporary New Generation cooperatives. This suggests that the core cognitive foundation of cooperative values, norms and beliefs may need periodic examination, updating, and refurbishing, just like the hard economic assets of plant and equipment that maintain their visible, outward structure.

Altruism: Profit vs service

Surveyed managers did not use the word "altruism" but their language was permeated by a constant concern for members that is encapsulated by this term. Those who reviewed this research felt the term aptly described how American cooperatives have a tendency to overextend themselves serving producers. Concepts of altruism may differ, however, especially in Europe, where altruism has been recently interpreted as going beyond the members' interest to benefit larger segments of society. Here, usage of the term altruism is *ad hoc*, derived from the field situation of manager interviews.

Within the US, the culture of cooperative altruism appears to be rooted in (1) limited returns on investment; (2) service at cost; and (3) cooperative investment choices. "Limited returns on investment" is the phase usually used to described the fact that dividends on capital stock by cooperatives are limited to 8 percent. This may be responsible for a perception that cooperatives do not have to be profitable, or that managers do not have to push to get high returns. Farmers' equity looks like a gift or "free money" when managers do not aggressively pursue opportunities for cooperative growth and expansion. During the 1950s and sporadically thereafter, public policies that encouraged grain storage may have led to an image of cooperatives as passive caretakers of producers' grain, an image brought over to other commodities or situations.

To managers, the surface meaning of altruism was "don't exploit the business for a profit," *i.e.*, don't take advantage of farmers. Altruism really represented a cultural ambivalence about earning profits that existed among members and managers alike, "profits were bad." Managers attributed this culture to the Rochdale pioneers who wanted cooperatives to be nonprofit. In the language of the Rochdale principles, after cost returns that are paid to members become "net margin." When such returns are paid to the cooperative, they become, "unallocated reserves," commonly known as "profit." Attaining profits made cooperatives like other businesses which, in a sense, meant they lost the organizational distinctiveness sought by the Rochdale pioneers (and, in a later era, by cooperative philosopher, Edwin Nourse). So, managers stressed the importance of other values. "We didn't make money but we did it for the good of the members so it's okay, they benefitted, it's good for them." Managers also said, "Even though the asset isn't returning what it should, we can't afford not to run it." The corollary of this approach was, "It's our responsibility to supply the members because we are their caretakers but we can't demand they have loyalty back."

Cooperatives have prominent roles in industries that have structural barriers to high returns, such as excess capacity (flour milling), high capitalization (fertilizer manufacturing), an aging infrastructure (grain elevation), or import competition (fruits and vegetables) – hence the expression, "cooperatives do more with less". Cooperatives may not be bench-marking themselves to the highest standards of performance in their investment choices because they quietly acknowledge profit-seeking corporations would not be found in some of these industries. It is not clear whether involvement reflects commitment to producer service – no one else would do it – or preference. In fact, cooperatives view themselves as "have-to" businesses, *i.e.,* we "have to" be in fertilizer or foods or convenience stores.

Since agriculture is a cyclical business, the hope existed that adverse market events might be self-correcting. Pruning losing businesses was difficult for managers. The economic consequence was that cooperatives stayed too long in so-called "losing businesses" because members are customers first, owners second. Return on equity (ROE) becomes secondary to service. Adopting the mores of the so-called business model of, "Will it make money? If not, why are we doing it?" is a challenging task for cooperatives because the values of altruism, service, self-sufficiency, etc., have permeated cooperative culture so thoroughly.

Altruism interacts with cooperative norms of equality to become cultural pressure to "keep all growers happy". Thomas Jefferson viewed farmers as an exalted class who would risk dependence, ambition, and greed if exposed to the "casualties and caprice of customers" (Jefferson, 1943[1785]:678). In "Notes on the State of Virginia," Jefferson depicted an agrarian ideal of farmers placing their own needs above the needs of consumers through making the farm diversified and self-contained (Jefferson, 1943[1785]:679). Early in the history of the US the family farmer became morally superior to his urban counterparts (Conlougue, 2001:11). This was cultural license for belief systems to develop that cooperatives should be run for the needs of producers, not the market.

Detachment from consumer preferences led producers to make poor decisions, like overfeeding cattle or producing the wrong variety of fruit. Cooperative response was marketing education, often sufficiently intensive that cooperatives could not position themselves as price leaders, only as offering a "fair" price, even to those growers who did not use the educational services. Education functioned as a leveling mechanism to restrict grower prices and this became the cost of altruism. Altruism interacted with cooperative norms of equality to provide "one price to all", which became a defining characteristic of cooperative pricing policy.

Dependency and assistance co-existed within the cooperative system as farmers implicitly relied on the cooperative to take care of them (*e.g.*, "Mother Sunkist") and regional cooperatives tried to be a "big brother" to member locals by providing the conceptual thinking and strategic planning for their operations. The demands for equality made by smaller locals within the federated system – "Don't treat the super any different from me" – really represented a call for assistance because patronage refunds from regional cooperatives were used to subsidize "things that weren't profitable" and that included smaller locals, according to managers of larger, "super" locals.

Fundamentally, altruism was about insulating producers or cooperatives from the forces of competition. Cooperatives were an organizational form predicated on the family farm, so preserving the family farmer was their implicit mandate. Normally, this took the form of processing operations, bargaining activities or widening market access, all rational economic activities. Culture took over when, irrespective of market conditions or potential losses to the cooperative, cooperatives covered the financial risk of members' decisions by guaranteeing them market share or a floor price. The cooperative assumed the risk of the growers' production decisions, not the grower, because "cooperatives are like a family."

Altruism and agricultural industrialization were combined as Land O'Lakes, Farmland, and Countrymark tried to maintain family farmers as an independent class in pork production, support the economic structure of rural communities by using local cooperatives as feed distributors and produce pork efficiently and cheaply. Farmland had the added goal of producing "from farm gate to plate" with a branded pork product. An integrated agricultural foods company growing value from the producer to consumer is the epitome of what an agricultural cooperative can accomplish. Noel Estenson, former CEO of Harvest States (now CHS, Inc.) captured this cultural vision in the slogan, "from the Back 40 [acres] to Aisle 40." (Estenson, 1998).

Nevertheless, competitors like Murphy Farms, Smithfields, and Tysons Foods primarily had one goal, producing cheap pork. In this case, it was impossible for "cooperatives to do more with less." When slaughter capacity became a bottleneck, forcing prices to a historic low in 1998/99, Land O'Lakes lost $26M covering the contracts of member producers. Farmland eventually bypassed locals but these efficiencies were not enough to compensate for the strain on resources to go from farm to table. Cooperatives went into production with worthy goals – so many, in fact, that the accomplishment of any single goal may have been compromised.

The emerging cultural model is less maternalistic, relying on the market to train producers about consumer preferences, not the cooperative. Rescuing a class of growers or locals stressed by commodity markets or poor decisions is now seen less from the victim perspective and more from the impact it has on members who will financially underwrite such decisions. As farms have become highly specialized, it may be increasingly difficult for producers to identify with those in other commodity specialties. Changing notions of altruism and solidarity may follow farm demographics. Agricultural industrialization also changed the normative model of a family farm from the Jeffersonian rural household to the individualistic farmer as a "business manager" model. Such farmers undoubtedly have families but the focus on the individual precludes Jeffersonian sentiments.

The shock of market failure also affected how members view altruism. Farmland's attempt to stave off bankruptcy through cross-subsidization, to try to compensate for losses in the fertilizer industry with meatpacking earnings made the cooperative community reconsider what fairness means. Altruism is now seen as less important than a new value of transparency, which means a full and open accounting of what the cooperative is doing. Altruism is being redefined as preserving the cooperative, not the individual grower or special interest groups. Land O'Lakes continues to be involved in pork production through contracted feeder pig production which has been profitable because it minimizes cooperative exposure to risk.

Cooperatives no longer guarantee market share to growers as a given, rather, they provide an opportunity for their members to secure market share. It is up to members as to how they use that opportunity. In the old systems of food marketing, cooperatives took whatever quality of grain or livestock producers delivered, co-mingled them, and looked for a buyer among several possibilities. Dedicated production systems now spell out how a product is to be produced and who the buyer will be. The cooperative's role continues to be finding new buyers or product uses, particularly globally. Altruism now emphasizes and encompasses consumers through product quality, integrity, safety, and reputation – the basis for the value embodied in cooperative brand names like Sunkist and Land O'Lakes. Accordingly, growers must meet tougher production standards, and in turn, they are starting to expect a higher level of financial performance from their cooperatives. Language aids this transition as managers replace the term, "service," with "value" or "value proposition" to upgrade member expectations and image of cooperatives.

Nourse: Personalized marketing vs fighting monopoly

Cooperatives are often viewed as businesses that provide goods and services "at cost". "Service at cost" is an organizational model predicated on Jeffersonian values of integrity and "keeping everyone honest", which cooperatives, as an organizational form, have exploited to counter monopolistic pricing by corporations. In the folk model of a "perfect co-op", the bottom line should be zero at the end of the year. If any profits are earned, they are seen, in this folk model, as "taken off the backs of farmers through overcharging."

The "service at cost" model is also implicitly a business model for those who do not see change as desirable. Because no profits are earned, no money is available to plow back into the business for growth to occur. For some locally owned grain elevators in the Midwest, the investment decision was framed as running the facility into the ground (defined as "service at cost") or reinvestment. Customers who wanted high quality, up-to-date facilities did not understand this culture. Yet, the service at cost model was culturally adaptive for producers who wanted to keep their cooperatives small, personal, and therefore less likely to exploit them.

These populist sentiments were captured in the competitive yardstick model developed by agricultural economist Edwin Nourse in the early 1940s (Nourse, 1992). Big business (and by association, profits) were bad in the Nourse framework, a cultural message which held cooperatives back from a more prominent role in the American economy. Nourse believed farmers should form cooperatives only when needed to offset monopoly power or compensate for inadequate services. After cooperatives had disciplined potential monopolists through the yardstick of competitive efficiency, Nourse believed they should simply maintain watch dog status over an industry, not try to dominate it themselves. Let others compete and farmers farm, he advised. This passive vision of cooperation left unanswered many of the questions that concern cooperatives today.

For example, it is not clear how big cooperatives should get, how long they should stay in a particular industry, and whether their relationship to other industry participants should be one of competitor or partner. The main prescription of Nourse's competitive yardstick model was that cooperatives should provide "an extra bid" or "extra competition" to "keep everyone honest." But this cultural model was formed in response to concerns about market concentration and farmer exploitation during the first part of the 20th century. Today, the concerns of farmers and their cooperatives are much different – getting access to information, finding a place within a value-added system, negotiating an equitable ownership role within that system, and addressing food safety and other product specification issues which are integral to the success of those systems.

At the same time, corporate market prominence sent a message to farmers: dominate or be dominated, and larger cooperatives considered part of their mission to include staking out industries that, for important economic reasons, should fall under farmer ownership. This led to a "friend – enemy" or "win – lose" culture of cooperation, popularly known as the "co-ops vs the independents." The gain of one party is always at the other's expense, no joint gains are possible. The Nourse concept of an extra bid became competition for the sake of competition when farmers could conclude that two cooperatives in the same community or at the same level were justified because "If neither makes money that means the best deal at the farm gate."

Cooperatives battled for over market share during the 1980s and 1990s. Initially, for Farmland Industries, in particular, the cultural model might have been "We're Number One. We're in the same league as Cargill and ADM," but increasingly, it came to be a debt fueled "Growth will solve our problem." Now, cooperatives choose their growth targets selectively. Sunkist is solidifying its position as world leader in citrus through a more strategic, nuanced approach that includes significant cultural change. By acquiring Purina Mills, Land O'Lakes pursues "size and scale while keeping the grassroots feel of a co-op," said CEO Jack Gherty. The acquisition allowed the cooperative to become the largest North American feed supplier.

Cooperatives are the organizational form where "small and local" and the "large and less personal" get combined and often, contested. The 2001 bankruptcy of Iowa-based Crestland Cooperative (Creston, IA) illustrates the complex issues triggered by cooperative expansion. Farmer reaction to the bankruptcy was, initially, distress – "People are really confused. They can't imagine how this could have happened to an organization this big." Crestland had challenged the status quo by adopting a so-called, "corporate mentality" in its quest to expand to superlocal status via "big rig" crop sprayers, Global Positioning System (GPS), state of the art feed trucks, and large producer hog networks. To some, the message conveyed by this apparatus was, "We're here to grow, to survive, and beat out other co-ops" – *not*, "We're here to be a part of the community."

Farmer and community interpretation of Crestland's aggressive expansion included the reaction "It's not a real co-op if it's big." For this group, Crestland was viewed as trying to stretch beyond its roots. Large producers seemed to be particularly prone to view large locals as just another incarnation of big agribusiness and they had no loyalty to either. "Who cares whether I buy from a large local or a big chain?" – explained an Iowa farmer – "It appears that expectations have not caught up to what the reality of what agribusiness is today. People got used to a more personal way to doing business. It's hard to get used to a more corporatist management". "Large, efficient, and impersonal – says a business is not a cooperative". Small and friendly and probably not particularly efficient because it's small – it's a cooperative.

When other businesses in town decide to get aggressive, this culture makes it hard for cooperatives to compete. Meeting competition head-on by cut-throat pricing, building more storage capacity, or adjusting prices to a volume-based "cost to serve" level, that's not neighborly. The cultural force of the family metaphor reportedly restrains some managers or directors from unabashedly pursuing growth for fear that they will lose what they already have.

The perception that aggressiveness and eagerness to change put farmers' money at risk has held cooperatives back. Yet, the implicit cultural model followed by many farmer cooperatives, emphasizing service, has risked farmers' money to the extent that, in 2002, Farmland Industries, the largest US cooperative, filed for bankruptcy, as did Agway, the largest cooperative in the US in the 1980s.

The yardstick model sent the cultural message to farmers that cooperatives had two, mutually exclusive, size-dependent missions, fighting monopoly power (when they were large) or providing a "small and local" marketing experience for farmers (when they were small). Yet, Nourse failed to realize that "farmers love stuff." A production facility like a dairy plant or feed mill built to correct a market imbalance can acquire tremendous symbolic importance to producers that Nourse did not consider when he called for cooperative retrenchment as part of the yardstick strategy. So, established cooperatives did not follow his impractical advice to fade into the background once a market failure had been corrected. And, since the agricultural economy did not generate the series of market failures that Nourse required from large cooperatives to justify their existence, they compensated, indeed, overcompensated, by emphasizing the "small and local" cultural component of cooperation. For example, Farmland strove to be "the giant with the personal touch" by trying to "grow big, but seeming to stay small to the membership" (Fite, 1978:381).

The result was that large cooperatives were pulled in opposite directions. "Small and local" conflicts with the centralized, consolidated operations, scale economies, optimally located, and other systematic, rationalized ways of approaching cooperation on a large scale. This cultural mission produces a confusing business mandate. What size business should cooperatives use for bench marking purposes, large or small? Are cooperatives really small organizations dressed in the trappings of large? The economic ramifications of combining both in the same organization can lead to a situation where cooperatives attain world leadership in the supermarket display case from a production infrastructure described as "a dairy plant or feed mill in every producers' back yard."

Service is paramount

For most agricultural cooperatives, the primary cultural value that drives economic behavior is service. Farmer ownership makes the service culture especially powerful and enduring within cooperatives – *this asset is mine, it should serve me.* In the cooperative lexicon, "ownership" and "control" mean the same thing. In an era when the industrialization of agriculture has effectively displaced family farmers, when world trade has displaced seemingly secure markets, farmer control is still possible within cooperatives.

The way service dictates choices within cooperatives is demonstrated when managers or directors say "We take care of our members". Or, if managers want to cut costs, and so cut back on services, they may say "I can't do it because my members won't let me." As part of this service culture, there is a broad definition of member needs because farmers are continually asked what they want their cooperative to do. This leads to an "add-on" mentality – let's "add on this" and "add on that". This attitude is reinforced by certain expectations, which local cooperative managers described as "Farmers like to go into every location and get everything they want," or, "Farmers like to see their equity investment spent at their own location, where they can see it."

The service culture gives primacy to member needs above all other factors. The fact that members want something and the cooperative exists to serve their needs makes other factors secondary, like what the service costs, how it fits in with the other services offered by the cooperative, whether the service is already offered by competitors, and so on. The economic consequence is that the cooperative can become a multipurpose business lacking a clear customer definition. The expression "Cooperatives are all things to all people," reveals the fundamental loss of purpose created by the add-on mentality, which other cooperatives (discussed later) are attempting to recover. With the "add on" mentality, the cooperative defines itself as it goes along, by accumulating a wide number of product lines, typically not clearly related. Ultimately, it becomes very difficult for such cooperatives to achieve the critical mass and scale economics that would enable them to compete with more efficient and focused suppliers.

The "add-on" mentality brought Agway (Syracuse, NY), the largest cooperative in the US in the 1980s, to bankruptcy by 2002. Despite a strict policy that they would not get involved in dairy processing, the New York-based supply cooperative purchased H.P. Hood, a fluid dairy company in 1980, to help members of Northeast dairy cooperatives stabilize milk markets (Anderson and Henehan, 2002:3). "Agway had no prior experience running a fluid milk business," which is "very competitive, and operates much differently than an agricultural supply company" (Anderson and Henehan, 2002:3). In the following decade, Agway was able to pay a patronage refund only twice.

Intense member support for a particular service, sometimes just the highly vocal support of a few members, can be sufficient to dilute or override the importance of economic factors. "Members, at times, asked Agway to do too much on their behalf without thoroughly understanding the costs involved" (Anderson and Henehan, 2002:11). The management of the cooperative, particularly a regional cooperative, then has the responsibility to build an organization around member choices. Gold Kist (Atlanta, GA) used the slogan, "Diversification is Our Strength," to reflect its interests in poultry, agronomy, cotton, and peanuts.

If there is a large number of farmers to be served by the cooperative, the cooperative may be able to make a diversified service strategy work. Economic stressors can make it particularly hazardous for cooperatives to follow this strategy, however.

Chief among these is farmer attrition. As the number of farmers declines, fewer will want any particular service. When agriculture left the Southeast, Gold Kist's diversity became fragmentation and weakness (Refrigerated and Frozen Foods, 2002). Farmers also have become increasingly specialized, so their demands have become more one-of-a-kind. Consequently, the service culture can set the cooperative up for dying a slow economic death, insofar as the assets accumulated to serve members in a variety of ways are slowly and painfully sold off, one by one. To maintain cash flow, Agway shed two profitable businesses, Telmark leasing, and their North Dakota sunflower business, and, nonetheless, filed for bankruptcy in 2002 (Anderson and Henehan, 2002:3).

Service delivery within cooperatives has often been provided by bundling, that is, grouping a particular service within a group of related products or services and pricing them as a unit. As economic pressures force many farmers out of farming, those that remain are forced to examine costs more closely. Cooperatives that have "bundled" items together may be forced to "de-couple" so producers can compare prices individually. Cooperatives that have built an administrative or overhead system around providing service packages or production systems, may find producers want to assemble their own systems, piecemeal, from different vendors, because it is cheaper.

Appealing to customers through a broad product array may make a cooperative vulnerable to transient consumer loyalties. Farmers may pick and choose, but the cooperative is stuck with the overhead. Cooperatives may have invested in costly assets like feed mills and assumed that farmer desire was equivalent to farmer use. Managers referred to this cultural concept as "We will build it, and they will come."

Consolidation among suppliers and farmer-customers has resulted in large producers driving hard bargains, and agribusiness conglomerates willing to do what is necessary to capture the business of these customers. In this context, the service strategy puts cooperatives in a particularly vulnerable position. More and more farmers may be seeking the one-time only "best deal." So, local cooperative managers are beginning to revise the way they approach the concept of service, by asking "Who do we serve? Who is our customer? Will they still be there in the future? Is that the business we want? There's good business and bad business."

These managers are starting to look at how much it will cost to serve a group of farmers and say "Hey, we can't do that. Let's walk away. Let someone else serve them". That is the kind of thing a corporation operating for profit would do. Instead of serving all customers – being all things to all people – the cooperative "cherry-picks" by pursuing the most attractive customers.

Looking at their farmer-patrons in terms of their potential profit to the cooperative introduces a form of distancing into what may have been a personal or social relationship. In some rural communities, the relationship between management and directors and cooperative members has been so personal and linked that the cooperative is more like a family, in some ways, than a business. This is shown in the way managers of small town, locally-owned grain elevators and farm supply stores go out of their way for their farmer-members. When a farmer pulls up at the co-op elevator at closing time with a truckload of grain, the manager will stay late, even though elevators operated by multi-national-corporations have probably closed. Similarly, the co-op will spray the farmer's fields at night because that is when the winds have died down. Why do managers do this? They said it was because "Our kids go to school with their kids."

In such communities, there is an intertwining of economic, social, neighborhood, kinship, and political dimensions within the cooperative bonds. While this has given cooperatives their cohesiveness and unity, it has also established certain expectations among farmers that may be resistant to change. If managers charge for advisory services previously provided as a free service, farmers have objected, saying "You never charged me before. You want my business. You better do it." Yet managers cannot attract the skill level of technical help farmers need without paying a particular salary level. So, they have to become, in their words, "more of a business than a cooperative." This linguistic distinction shows the extent to which cooperatives have been put in a class apart from other businesses and held to different rules and expectations.

As managers try to revise these expectations, they anticipate their cooperatives will become less personal than what their father's co-op was, more of a business ("arm's length") than family relationship. Establishing a new cognitive grounding for the cooperative is essential because long run margins for local cooperatives will be in technical support services, not traditional bulk commodity products.

Regional cooperatives have a similar adjustment to make. Their task as manufacturers is to answer the question "What are we good at?"

For Gold Kist, the answer was poultry, which they defined as their core business. This decision led them to divest their operations in agronomy, pecans, catfish, farm supplies, and peanuts. Similarly, Land O'Lakes recently announced a phased reduction of its involvement in the pork industry due to the displacement of family farmers by integrators and increased market volatility.

By streamlining and narrowing their commodity focus these cooperatives are approaching, are the questions of service from the standpoint of "Who do we serve?" *and* "What are we good at?"

They are using a dual focus that allows them to take more than just producer interests into account. Agway essentially looked at the question of service from the standpoint of "Who do we serve?" that is, producer interests. "What are we good at?" is a question which addresses the economic efficiencies of the cooperative.

The multi-commodity cooperative has to balance different producer interests and that can be a difficult task. Farmland Industries and Countrymark were two such cooperatives. These cooperatives had portfolios that, between them, included grain, pork, turkeys, fertilizer, beef, agronomy and petroleum. The portfolios were built from the standpoint of anticipating that a good year in one commodity would offset a bad year in another. So, an expectation of loss was built into the cooperative's culture. At some point, a commodity cycle was going to hit the cooperative hard. And, in fact, when particularly severe losses occurred for one commodity, as in the case of Farmland Industries, described below, it was sufficient to bankrupt the entire cooperative.

Self-sufficiency has a price

The case of Farmland Industries is particularly interesting because it represents a mix of cooperative values of self-sufficiency and service. Self-reliance may be a value that can be traced to pioneer values of "going it alone" and a wariness or distrust of outsiders. A need for self-reliance has also figured prominently in farmers' desire for a source of domestic fertilizer supplies so they can undertake spring planting on schedule. During the 1970s energy crisis, farmers were able to accomplish this critical task because cooperative resourcefulness maintained sufficient natural gas reserves, a seedstock for fertilizer. This accomplishment became reified as a cultural model for a later period of high natural gas prices.

During 2001-2002, a period of particularly high natural gas prices, Farmland Industries tried to assure farmers self-sufficiency in fertilizer following the example set by cooperatives 30 years earlier. At the recommendation of members, Farmland went into considerable debt to upgrade existing plants within the Farmland system. Imported fertilizer would have been much cheaper, possibly less available, and sometimes looked odd, because it was colored black instead of white. Farmland was the largest farmer cooperative in the US. The fertilizer debt helped pitch it into bankruptcy.

Aggressive attempts by the former Soviet Republics to move product into the US made the 2002 energy crisis differ from the 1970s. The need for cooperatives to respond to a mandate like "We take care of our members", was suddenly an anachronism in the context of the wider availability of supply on the world fertilizer market.

Rethinking conventional notions of service means that some demands made by farmers have to matter less than others. Some demands have to go by the wayside. The rules of the game have changed. The expectation that farmers will be automatically loyal to their cooperatives is no longer true. Someone else may be cheaper. Someone else may have a better product. The cultural obligation that cooperatives should go out of their way to provide service to their farmer members, is no longer valid. Farmland and Agway experienced problems in part because their definition of service was so producer driven.

For the local cooperatives that are members of the regional cooperative, Ag Processing Inc. (AGP) (Omaha, NE) service is defined as getting a better price for their soybeans. AGP, as a regional cooperative, is focused only on soybean processing. That dedication allows AGP to be a low cost supplier to industry users of oil and meals. If there is a lack of demand for soybean oil or some other setback in the soy processing industry, the local cooperatives who own AGP accept this as a consequence of their ownership. The lines of accountability are clear. This clear demarcation of boundaries seems to be one of the evolving characteristics of cooperation.

The intensive specialization followed by Gold Kist and AGP were triggered by recognition that consolidation has happened within interdependent parts of the food chain. Cooperatives which lack the critical mass, focus, and capitalization will be locked out of desirable value-added opportunities, such as instant meals. To qualify, cooperatives often need to be low cost producers, which requires high product volumes and dedicated, efficient handling.

Cooperatives like Farmland and Countrymark who pursued a counter-cyclical diversified portfolio had to spend considerable attention managing the divergent commodity cycles and any ensuing complications in member relations. Their definition of service was necessarily producer-driven. With specialized cooperatives like Gold Kist or AGP, what becomes paramount is the relationship with the investment partner, whether that is another cooperative or a corporation, as they jointly develop their respective contribution to a value-added system. What becomes important in defining service is not what farmer Joe wants but what the customer wants. The definition of service is market driven.

Recognizing that import competition was chipping away at the cooperative's market share, citrus marketing cooperative Sunkist began sending the message to members that "A cooperative does not exist to altruistically provide services to growers but rather to provide product consumers want to buy." Many service oriented supply cooperatives have approached diversification from the "add-on" concept which ultimately led to a loss of focus. Sunkist's Navel oranges had tremendous quality and consumer name recognition but when they were not on the shelf, consumers bought something else. Sunkist needed "add-ons" to keep their name and product in front of consumers. Navel oranges were seasonal, growing only during the summer.

Most cooperatives have an implicit "friend-enemy" culture. From that context, foreign suppliers were outsiders. The question any grower might ask would be "How was the fruit produced?". So, applying the Sunkist label to imported fruit was a conceptual leap for Sunkist members.

Language took the cooperative from its customary rural boundaries to a more ambitious, daring vision. "Our competition is not grower vs grower, packinghouse vs packinghouse or independent vs Sunkist. We are competing in a world market place for consumption". At this level, the rules have changed. Sunkist said, "If we control the fruit that is coming in instead of other people controlling it by bringing it in at a lower price, our growers will benefit by selling their fruit". This was a different way of thinking about the notion of farmer control. Typically, farmers fought import competition head on, "my fruit vs your fruit". But Sunkist recognized that free trade was a reality and what the cooperative needed was cultural change to adapt to these new market conditions. This involved some short-term market displacement of member fruit and learning to see former competitors as partners. More importantly, it also gave Sunkist the increased volume that has always been cooperatives' goal, whether they have been producer or consumer driven. Growers would sell their fruit along with the imported fruit and they, not Sunkist, would get the profits from the whole venture because Sunkist is a cooperative. This was the compelling argument for cultural change.

With Sunkist's volume, comes critical shelf space and consumer access. To maximize these benefits, Sunkist has verbally repositioned the cooperative, "We are not in the citrus business, we are in the taste business". Sunkist had started as the Southern California Fruit Exchange in 1893. However, bulk oranges or citrus are restrictive commodity categories that predetermine what the cooperative can do. The "taste business" suggests the potential for stimulation, novelty and variety that category managers at Walmart and Kroger require to bring in customers.

Conclusion: Culture at the crossroads

Cooperatives have an altruistic, service culture that has generated some painful consequences. Cooperatives tried to preserve certain growers or commodity groups, like Agway or Farmland Industries, and that bankrupted the entire cooperative. Altruism must be looked at not from maintaining special interest groups but from the standpoint of maintaining the cooperative as a whole. What good does it do to preserve these groups if doing so damages the cooperative? Then everyone loses.

The cultural view that cooperatives are fused with the producer as an extension of the farm is being replaced by a new value of transparency, which allows cooperatives to be seen as separate and independent of farmers. This clarity permits a greater degree of financial integrity and latitude in decision-making than allowed by altruistic intentions to insulate members from competitive pressures. Transparency frees cooperatives to become more market driven.

Cooperatives want to be as efficient as their new corporate partners. This will probably involve making critical decisions about the size of organizations they want to be, not trying to be both big and small simultaneously, a variation on being all things to all people. Being a large organization with the extensive bureaucratic network necessary for the personal touch is an outdated cultural model for cooperatives. They achieve neither the economic efficiencies of comparably-sized corporations nor the personal trust and valuation of the small town "mom and pop" store.

Cooperatives face other cultural transitions. The cultural model of Nourse's competitive yardstick was a negative one, skewed to seeing monopolistic exploitation and power, not opportunities for cooperative growth and influence. Nourse wanted to see that farmers were served well. His cultural legacy may have been a sense of farmer entitlement that has overburdened the economic capacities of cooperatives.

With the industrialization of agriculture, the pendulum is swinging back the other way. Farmers have become regarded in a detached way as "the most efficient manager of land" within an industrial management system (Urban, 1996:70). Attention has shifted from farmers *per se* to the drivers of the value-added systems that we are finding in agriculture today, and that includes cooperatives. These systems could offer an economically healthier cultural environment for cooperatives to flourish than the Nourse-influenced settings of a previous era.

As part of this transition, cooperative culture is adopting the mores of a business ideology that says "profits are good". Is this a first, critical, step toward separation of ownership and control? Does a statement like this – one that Nourse or the Rochdale pioneers would never make – represent an evolution of cooperative culture or its demise? Or, can cooperatives be viewed as fluid, adaptable organizations that can let go of some principles and keep others that differentiate them from the rest of the marketplace? As cooperatives encounter financing and member shortages, a critical issue is defining what makes a cooperative *a cooperative*.

The word "caring" was often used by managers in talking about members, so that it does seem as if "Cooperatives are like a family". As such, despite academic suggestions that cooperatives and corporations will become essentially interchangeable as hybrid organizations, cooperatives may have succeeded in building an irreversible culture that simply needs to become somewhat more efficient, *e.g.*, more discriminating in rendering service.

One conclusion from this research is that service is not incompatible with "making money" if service is redesigned to fit market constraints. The "add on" model of service was a contingency driven model of cooperation, consistent with a cultural emphasis on "farmer as victim or farmer being shortchanged in the marketplace". The second conclusion is that preserving cooperative uniqueness or specificity can be a challenge as cooperatives try to adapt to the changing conditions of an increasingly globalized world. The "add on" model and the caring, familial model put one-sided financial pressure on cooperatives, without equal pressure on members to be loyal or to question whether they were placing too many demands on cooperatives. The family culture has to be replaced by a culture of partnership (whether inside or outside the cooperative system) because the cooperative system cannot afford the continued cost of dependency.

Cooperative culture has inextricably linked people, place, and assets, neither being definable without the other. For example, dairy farmers used to visit artificial insemination cooperatives, taking pride in their facility and buying from it because they had inspected the bulls. Export health restrictions for semen now preclude this. The culture of the personal touch and the tangible asset may be changing as, seeking growth, cooperatives extend runners to other countries. Sunkist has begun importing fruit from other countries. No longer is a fixed domestic location or facility necessarily going to be the hallmark of a cooperative. More likely it will be the free floating symbol of the cooperative brand, found anywhere in the world. As the number of American farmers declines, cooperative strength may grow through adding foreign producers as members, especially as consumer tastes for the exotic, unusual, or out of season increase. This will increase the cultural challenges facing American cooperatives.

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