

How Culture Drives Economic Behavior in Cooperatives

Julie A. Hogeland, Agricultural Economist

Rural Business-Cooperative Service, U.S. Department of Agriculture
julie.hogeland@usda.gov 202.690.0409

Presentation: Mapping Co-operative Studies in the New Millennium
University of Victoria, Victoria, British Columbia
May 29, 2003

My premise is that culture affects economic behavior. I am going to discuss how the concept of service offered by regional and local farm supply and grain cooperatives 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 multi-commodity cooperatives like Farmland, Countrymark, and Agway. The producer's needs were foregrounded in this setting. Service has ended up by being defined as a market-driven concept, where the needs of the customer become paramount. The institutional framework has evolved to an industrialized agriculture, where producers have become backgrounded and cooperative identity has coalesced around participation in value-added food chains. In this context, being a low cost supplier or getting a high price becomes the key definition of service.

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:

1. emphasizing service over making money;
2. being altruistic, not exploiting the business for a profit;
3. attaining self-sufficiency to minimize farmer dependency on those perceived as outsiders;
4. emphasizing a hierarchal style of leadership and dependence;
5. displaying an unwillingness to let go of relationships, things, or places;
6. valuing the “small and personal” over the “large and impersonal”;
7. preferring to subordinate individual goals to the good of the whole; and
8. 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 framework for understanding multiple dimensions of cooperative behavior.

These themes were drawn from some 30 interviews I conducted with regional and local cooperative management during the last two years.

During the interviews, managers were asked to provide examples of expressions or language that represented traditional ways of talking about cooperatives. I also asked managers how they would respond to such traditional thinking. This give-and-take provides a useful compendium of how local cooperative managers--who are on the

front lines of cooperative activity, because they interact directly with farmers--are gradually reshaping cooperative culture.

The primary cultural road map that most non-bargaining cooperatives have had is the competitive yardstick model of Edwin Nourse (Nourse 1992). In important ways, this is probably an outdated script. Nourse established the “competitive yardstick” in the 1940s. He 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. He even suggested cooperatives might consider abandoning industries where they had been particularly successful in establishing competition. Leave it to others to compete and let farmers go back to their traditional activity of farming, he advised. This was a very passive vision of cooperation that 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.

Recent severe financial pressures, including the bankruptcies of Farmland Industries, Agway, and TriValley Cooperative, suggest that the culture may be pointing cooperatives in the wrong economic direction, at least in some respects.

The primary cultural value that drives economic behavior in cooperatives is service. 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 (which I will discuss 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, the largest cooperative in the US in the 1980s, to bankruptcy by 2002. Despite a strict policy 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 & 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 & 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 & Henehan 2002:11). The management of the cooperative, particularly a regional cooperative, then has the responsibility to build an organization around member choices. GoldKist used the slogan, “Diversification is Our Strength,” to reflect its interests in poultry, agronomy, cotton, poultry, and peanuts.

If there are a large number of farmers to be served by the cooperative, the cooperative may be able to make a diversified service strategy work. There are

particular economic stressors that 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 a weakness.¹ 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 & 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

¹"By shedding its non-core businesses Gold Kist Inc. is fast becoming a lean mean poultry machine" Refrigerated & Frozen Foods, May 2002, Vol 13 (5) p. 16.

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 saying:

- 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 says, “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 told me 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. Long run margins will be in technical support services, not in the bulk commodity products that have been the traditional source of income for local cooperatives.

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 the question 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 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 and fertilizer, it

was sufficient to bankrupt the entire cooperative.

The case of Farmland 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 and distrust of outsiders. It also has figured prominently in farmers' desire for a source of domestic fertilizer supplies so they can undertake spring planting on schedule. During the 1970's 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 buy domestic manufacturing plants. 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.

What was different between the energy crisis of the 1970s and 2002 was that new suppliers like Russia had come on stream. 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, AGP, 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 meal. 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 complications in member relations that brought. 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.

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.

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