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86. Mem. Op., *supra* note 9, at 70.
87. *Id.*
88. Mem. Op., *supra* note 9, at 82.
89. Ark. Stat. Ann. § 67-1248(a)(12)(i) and (e) (1980, 1985 Supp.).
90. Complaint, *supra* note 31, Plaintiff's Exhibit F.
91. Ark. Stat. Ann. § 67-1248(a)(12) (Supp. 1973), Section 14(a) (12) of the Arkansas Securities Act of 1959.
92. Complaint, *supra* note 31, Plaintiff's Exhibit C.
93. *Id.* at H.
94. Complaint, *supra* note 31, at K.
95. *Id.* at L.
96. *Id.* at M.
97. *Id.* at N.
98. *Id.* at O.
99. *Id.* at N and O.
100. *Robertson*, 633 F. Supp. 954, 964.
101. Jury, *supra* note 36, at 12, Claim V(A).
102. *Id.* at 14, Claim V(E), at 15, Claim V(A).
103. Instructions, *supra* note 28, at 84.
104. *Id.* at 105-106.
105. Mem. Op., *supra* note 9, at 96.
106. Instructions, *supra* note 28, at 96.
107. *Id.*
108. Instructions, *supra* note 28, at 82.
109. *Pereira v. United States*, 347 U.S. 1, 74 S.Ct. 368, 98 L. Ed. 435 (1954); Adapted from the charge of Judge Weinfeld in *United States v. Corr*, 543 F.2d 1042 (2d Cir. 1976).
110. Jury, *supra* note 36, at 10, Claim III(A).
111. Instructions, *supra* note 28, at 78-88.
112. *Id.* at 80-81.
113. *Id.* at 81-82.
114. Mem. Op., *supra* note 9, at 81.
115. *Pharo v. Smith*, 621 F.2d. 656, 666 (5th Cir. 1980), *on reh'g*, 625 F.2d 1226 (5th Cir. 1980).
116. *Stokes v. Lokken*, 644 F.2d 779 (8th Cir. 1981).
117. *Lewis v. Mays*, 208 Ark. 382, 186 S.W. 2d 178 (1945).
118. Instructions, *supra* note 28, at 89.
119. *Id.* at 75.
120. *Chavis v. Martin*, 211 Ark. 80, 199 S.W. 2d 598 (1947).
121. Mem. Op., *supra* note 9, at 16.
122. *Id.* at 82.
123. *Id.*; See also, *SEC v. Arthur Young & Co.*, 590 F.2d 785 (9th Cir. 1979).
124. *Robertson v. White*, 635 F. Supp. 851 (W.D. Ark. 1986).
125. Complaint, *supra* note 31.
126. Jury, *supra* note 36, at 17, Claim VI.
127. *Olin Mathieson Chem. Corp. v. Planter's Corp.*, 236 S.C. 318, 114 S.E. 2d 321 (1960). See generally, D. Fee, A. Hoberg, and L. McCormick, Director Liability in Agricultural Cooperatives, USDA, ACS Coop. Information Rept. 34 (Dec. 1984).
128. *Id.*
129. Mem. Op., *supra* note 9, at 50.
130. Complaint, *supra* note 31, at 36, para. 75.
131. *Id.* at 22, para. 48.
132. *Hobert v. Ruefenacht*, 471 U.S. 701, 857, 105 S.Ct. 2308, 2311, 85 L. Ed.2d 78 (1985).
133. See, for example, *Robertson v. White*, 635 F. Supp. 851 (W.D. Ark. 1986).

Book Reviews

Watkins, W. P. *Co-operative Principles: Today and Tomorrow*. Manchester, England: Holyoake Books, 1986, xiii + 168 pp.

W. P. Watkins is a noted European writer, teacher, and consultant on cooperation whose work goes back over 60 years. He has involved himself with all forms of organized cooperation including agricultural cooperatives, worker cooperatives, consumer cooperatives, and credit unions. His purpose here is to articulate a clear and forceful set of cooperative principles that can be subscribed to by all forms of organized cooperation internationally. With such an undertaking, the author enters an ideological forest of competing ideas on societal organization. Cooperation is an international phenomenon caught up in competing systems, ideologies, economies, and socioeconomic organizations. By necessity, this review will have to enter some of those same discussions to follow Watkins through a thicket of opposing ideological and philosophical positions.

Evident in this work are certain underlying but central themes: (1) Power in the marketplace is a dominant and dominating force having major influence on the distribution of the products of production. (2) "Individualism" (and therefore much of classical and neoclassical economics, e.g., "economic man") is a mythical assumption. Man/woman is a "gregarious" social organism not naturally and intrinsically individualistic. (3) Spectacular socioeconomic progress has been made in the noncooperative sector, but at the cost of "human deprivation, misery, insecurity, and international and social strife." (4) Much of this "exploitation" has been due to "excessive individualism" (the blind pursuit of individual gain) and power imbalances in the marketplace. (5) Organized cooperation is a more rational if not a morally superior alternative. It is more rational because it is more consistent with fundamental characteristics of human beings. It is on a higher ethical plane in that it is more centered on distribution and balance in the marketplace.

Watkins presents seven cooperative principles within this thematic context. They are: (1) Association or Unity, (2) Responsibility or Function, (3) Liberty, (4) Democracy, (5) Economy, (6) Equity, and (7) Education.

"Association," according to Watkins, is the centerpiece and the most distinctive principle. "Association" refers to "individuals or entities joining together, coalescing, combining, integrating and remaining united in order to satisfy common needs, achieve common ends, or derive mutual advantage from their association." Watkins offers this assumption in contradistinction to assumptions of individualism and competition that underlie and drive much of the noncooperative sector. With "Association" as his founding principle, Watkins then develops the remaining six. An organic analogy is central to much of his discussion.

In explaining "Responsibility or Function," Watkins makes the statement, "Just as the physical body breathes, nourishes itself and moves from place to place by adapting and locating particular sorts of cells to serve as constituents of organs, so the body social selects, trains and locates its members for specialised duties fulfilling its various purposes." Watkins sees cooperative organization not unlike an organism, with social purposes

and constituent members acting to meet those purposes or functions. He combines "Function" with "Responsibility" not to lose sight of individuals within the larger structure. "... Function when viewed from the standpoint of society [cooperative] is Responsibility when viewed from the standpoint of the individual." The functioning of the organization is dependent on performance of the members, taken broadly to include member-users, elected directors, management, and employees.

"Responsibility" is to be understood in terms of legal and/or contractual relationships and, more importantly for Watkins, "Association"—individuals performing actions as part of a social organ oriented to meeting social needs. Breach of membership duties has "ethical" implications because it not only weakens the society and damages the disloyal member, but damages all members.

"Liberty" refers to freedom of action both outside and inside the cooperative. Watkins holds that, in nearly all cases, membership must be voluntary and open irrespective of political, religious, or social doctrine. However, once membership is subscribed to, the author gives "Liberty" within the organization a different coloration and ties it closely to organizational "Function and Responsibility."

Constituent parts of an organism cannot function independently and outside of larger structural and functional limits. The cooperative is a collection of individuals functioning in some united fashion for larger social purposes. "Liberty" within a cooperative must be understood in terms of "freedom with" fellow members. "Multitudes can never achieve, as individuals, economic independence and freedom from exploitation, but they can attain collectively an increasing measure of such freedom and independence through Co-operation" Members must be willing to accept the rules of the operation, be they "binding rules" or other contract systems. "The more Co-operatives are able to dominate their economic environment, the more widely they extend their members' freedom to command all kinds of economic operations instead of remaining subservient to them." *given members are willing to give up lesser liberties for larger ones.*

Although this concept of "Liberty" pushes most readers' traditional assessments of its meaning, the chapter on "Democracy" is fairly standard. Because, according to Watkins, cooperatives are to be built around the principle of "Association," there must be some agreed-on methods of ascertaining members' wishes. Some system of government is in order that allows the organization to function for common ends, at the direction of common will (i.e., democracy). Further, given the organizational contextual understanding of "Liberty," informed consent and participation of members is crucial to cooperative survival.

Watkins's use of an organic analogy applies both to his "Democracy" and "Economy" principles. Citing Albert Thomas, Watkins states that

the structure of the Co-operative economic system, based as it is on a very large number of small economic units which are like antennae through which it can sense the requirements and possibilities of everyday life, has a sort of sensory apparatus comparable to that of a living body. That apparatus does not simply transmit information step by step to the central organs which

translate it to reasoned actions. It even, up to a certain point, permits automatic reactions, defensive or compensatory reflexes, which prevent maladjustment and avoid dangerous error.

Under the democratic structure, the general meeting is held as central to the pursuit of democratic decision making. The organ through which the general will is expressed is the general meeting. To preserve its importance, regionalization and representation must emerge with increases in cooperative size. Although *individual* liberties within the organization are in a real sense limited, the democratic process allows for internal, self-directed structuring of those limits through participation and representation.

By "Economy," Watkins is referring to the process of measuring results against efforts in producing economic growth and social progress. The same organic analogy that is applicable to democratic functioning applies here as well. Economic transactions, rather than the general meeting, are central. The author makes the case that the coming together of "Economy" with "Association," "Function/Responsibility," a cooperative sense of "Liberty," and "Democracy" enhances possibilities for planning beyond those possible in the noncooperative sector. Controls on supply may be possible; binding rules on producers may be more palatable; commodities may be more easily standardized; and quality products and quality guarantees are more tenable. Better and more predictable supply may permit larger scale and perhaps better integration among the several branches of the cooperative sector.

Watkins refers to a sense of "fairness" when discussing "Equity." "Equity" internal to the cooperative refers to the division of cooperative surplus among members and, in addition, employees, investors, and reserves. Watkins's treatment is fairly traditional but placed in a contemporary context. "Under present-day competitive conditions when attention is focused chiefly on prices and Co-operative societies are obliged to offer their members every inducement to reject attractive offers from private trade . . . the old solidarity which led the wealthier to make common cause with the poorer farmers is difficult, even impossible, to maintain beyond a certain point." Returns to members must be guided by contributions to turnover, which might include not only considerations for volumes purchased or sold, but also product grades delivered and/or other differential costs and benefits due to scale. "Strict uniformity and equality of prices and treatment in other ways may not necessarily be equitable." Other divisions, i.e., to labor and capital, should be related in some way to contribution to turnover, productivity, etc.

In presenting the principle of "Education," Watkins discusses three aspects: (1) technical training, (2) social discipline, and (3) knowledge. Technical training is self-explanatory and is related to operating efficiently. Social discipline includes understanding underlying principles as well as cooperative potentials in a breadth of economic and social problems. The flip side of this is the standard of conduct for the individual. Members, if they are to be masters of their cooperative, must be willing as individuals to serve it. By knowledge, Watkins is referring to the cooperative working in its socioeconomic context. "The study of Co-operation in a vacuum has

no kind of practical value or result. Co-operation only becomes significant against its economic and social background and without this knowledge Co-operators are prone to expect sometimes too much, sometimes too little, of their societies. . . .

There are some rather peculiar inconsistencies in the presentation of these principles. As stated previously, Watkins maintains organized co-operation is a more rational, if not a more humane, alternative to non-cooperative sector development. He rejects the validity of individualist assumptions and questions the reliability and equitable nature of non-cooperative market mechanisms. Under the noncooperative profit system, ". . . the market mechanism [is] no more than a rough and ready and, at times, highly unreliable indicator of society's real needs. . . . It is notorious that market price is continually subject to attempts, more or less successful, to manipulate or regulate it. . . ." Yet he opens his chapter on "Economy" with the statement, "Unless their membership of a Co-operative society enables them to effect savings which they would not otherwise be able to make or yields them an income in money or provides a service which they would not otherwise receive, there is scarcely any advantage in their being Co-operators, whatever moral or social benefits Co-operation may offer." This sounds very much like "economic man" rationality. He closes the chapter with these statements: "The economic test is not the only one which Co-operation has to pass. It will be ultimately judged by its contributions to the achievement of satisfaction and security for the exploited, deprived and depressed peoples of the world." Much of the book makes the case that cooperative organization has practical and ethical advantages toward meeting those ends. The former statement seems inconsistent with this latter position.

His treatment of "Association" at certain points in the text does not seem as well-informed by his own explanations as at others. He is very emphatic in stating that "Association" is the most unique principle. He implies it is perhaps best developed "where Co-operators cultivate their sense of justice to the point where they recognise what is due to others as readily as they do what is due to themselves [in cooperative efforts]." Yet he somehow sees development of vertical and horizontal integration in the noncooperative sector as a flight away from "economic man" rationality and toward aspects of "Association." Perhaps it is protective movement away from competition, but it certainly is not movement from the individualist logic of classical and neoclassical economics.

These inconsistencies are not explicitly resolved in the text. However, it perhaps does not damage the work paradigmatically to suggest a temporal seating to these concepts. Today's context of socioeconomic austerity may permit only strict economic rationalist decision making. Watkins himself suggests this in reference to the dated nature of the "old solidarity and common cause between wealthier and poorer farmers." However, less austere times, or simply increasingly more and broader experience with the principles of cooperation ("Association" in particular), may permit a more collective and community interpretation of efficiency, return, and related concepts. Watkins himself suggests that ". . . Co-operation must be efficient in its own sense of the term [emphasis added]. . . ."

Watkins approaches the work from a "Power" paradigm. He assumes much of socioeconomic organization is determined by power relationships, power being derived from control of resources and position associated with complex organizations (bureaucracies). This power comes to be articulated in the marketplace and can develop to such levels that it "can keep certain classes of consumers and producers in a position of permanent inferiority." Once this power/bureaucracy view is chosen, it tends to conceptually dictate organization as the strategic alternative for balancing and removing superordinate/subordinate relations. As presented, Watkins maintains cooperative organization is the practical and ethically superior choice for socioeconomic progress.

All paradigms have utopian and pathological images. The utopian image of the power/bureaucracy view of reality is the *planned society*. Decision makers are less hampered by short-term demands and can engage in long-range rational planning. Coordination among large organizations is possible and permits the orderly exchange of needed products, services, and resources. Through coordinated activity, overall development of resources for broad societal benefit can occur. The pathological image is *totalitarianism*. Top decision makers (elites) become so entrenched in their positions they are able to turn organizational activities to their own benefit or to the exclusive and predatory benefit of their organization. In extreme cases, direct repression, limitation of rights and liberties, and, in cases of the State, police rule occur.

There are seeds of both tendencies in this work. Watkins would surely maintain that the democratic character of cooperation provides strong mitigating factors against centralization of prerogatives. Conversely, whether the assumption of "individualism" and what Watkins cites as "the mania of owning things" can be set aside as simply not intrinsic to the human character is questionable. Further, his subscription to an organic analogy tends to minimize possible class distinctions and conflicts (even within a cooperative) that can potentially split up an organization. Organizations very often do not function according to equilibrating "organic" tendencies, but rather according to resolution, and at times only partial resolution, of contradictory interests.

Watkins states that "in the social climate of today, people attempting to work together sooner or later risk self-frustration unless they can persuade not only their collaborators but society at large that their collaboration results in economy rather than waste, is democratic rather than dictatorial in its organisation and spirit, checks exploitation and reinforces social justice, promotes social responsibility in the exercise of power, and extends rather than diminishes personal freedom." Cooperative practitioners will have to decide whether Watkins's statement of principles can answer these challenges. Ultimately the final test of any set of principles is whether they can guide cooperative organization to the solution of practical socioeconomic problems.

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Chapman, Harold E.; Douglas A. Holland; Sean D. Kenny; and others. *The Contemporary Director: A Handbook for Elected Officials of Co-operatives, Credit Unions and Other Organizations*. Saskatoon, Saskatchewan: Co-operative College of Canada, 1986, xiii + 247 pp.

The Contemporary Director, published by the Co-operative College of Canada, is designed as a handbook for elected officials of cooperatives, credit unions, and other voluntary organizations. It is an attempt to apply many of the current thoughts and ideas about the role of directors in cooperative businesses to cooperatives in the latter part of the 20th century.

The principal authors are Canadian, and most of their examples are based on Canadian experience. However, the application of these ideas and their transfer to U.S. cooperatives should be quite easy for most readers.

The book discusses a wide range of skills needed by cooperative directors today. Subjects covered include legal responsibilities of directors, decision making, board operations, and director training and development. The authors also bring in some experiences of emerging cooperatives and how these can be applied to contemporary organizations.

This book can be viewed as a continuation of some of the earlier work by Garoyan and Mohn on the role of the board in cooperative businesses. This particular publication continues with many of those ideas and applies and views them from the standpoint of the individual director as well as the whole board.

Although the book is designed as a handbook for directors of cooperative organizations, it implicitly assumes the reader has some knowledge of the role of a director. The manual could be more helpful to new directors if there is an opportunity for parallel outside instruction and guidance. This might be handled by the board president or chairman, experienced directors, or outside personnel.

The format is designed to help the reader gain the maximum benefit from each chapter. Each chapter starts with learning objectives to guide the reader. For example, the introduction to the chapter on "Legal Responsibilities of Directors" states that "this chapter should assist the reader to . . . identify the standard of care, skill and diligence necessary to meet the legal requirements for directors of a co-operative." (There are two other objectives for this chapter.)

The chapter text is designed to meet the learning objectives and concludes with discussion questions and/or short case examples. These may be directed toward an analysis of the readers' own cooperative or draw on outside experience or knowledge, e.g., an understanding of the basic co-operative statute covering incorporation and operation of cooperative businesses.

One way this format (learning objectives, text, and discussion questions) could be used effectively is to develop an instructor's guide. While many of the questions and/or cases have no correct answer, there are points that could be raised by an experienced resource person. We all tend to teach from our own background and may not be aware of applications and examples from other situations.

Along with an instructor's guide, the authors could develop a format for a one-day (or longer) workshop based on their handbook. Participants could fill out and discuss the appendix forms, analyze financial statements, and develop sample policies and job descriptions.

One of these forms is the "Director Personal Assessment Form," appendix XII-B. This form could serve as a stimulus for individual directors to seek or continue their training, especially those directors who feel they do not need any further training. The form could be modified and used as a periodic measure or a continuing long-term training program.

The late E. G. Nourse said U.S. cooperatives were "long on practice and short on theory." In view of some of the current discussions about the role of contemporary cooperatives in the U.S. economy, some cooperative scholars are advocating a more businesslike approach and less application of theory. The Canadians, like many Europeans, always have emphasized the social role or responsibility of the cooperative business in society. This book continues that approach and emphasizes that for a cooperative to be successful, it has to be more than just a viable economic business, and if the cooperative is no more than the latter, it may have little reason to exist.

Throughout the book, cooperative directors are reminded they do have a responsibility that goes beyond the economic. The following quote is illustrative:

If history is our guide, then co-operatives' leaders must recognize that the basic strengths of co-operatives are found in their unique characteristics and principles. The real power of their origin is in the application of needs and values in particular social and economic contexts. . . . The social dimension of co-operatives is inescapable. Directors must at least confront the social issues; innovative and forward-looking directors will see that the real value of co-operative organizations will be in their ultimate contribution to society.

In fact, the authors identify a key issue facing cooperative policy makers as the contradiction and questions concerning cooperative philosophy and cooperative action. They refer to the difference between cooperatives as an economic organization and as an institution. The latter is defined: "Institutions [are] behavior patterns through which fundamental social desires or needs are met. The concept is akin to what is commonly called the co-operative movement."

In performing their role, the authors think

directors have a special responsibility, implicit in the fact that they represent the members and, by extension, the co-operative movement, to maintain balance between the human and financial objectives of co-operative organizations, and a harmonious relationship between these objectives and co-operative values and culture. We feel confident that directors can fulfill this responsibility through carefully considered policy and directional decisions within co-operative organizations, and through secondary and tertiary co-operative organizations that have been created to serve the needs of primary co-operatives.

This statement concludes with a call for research "on an inter-organizational level that will address the problems of consistency between the objectives of co-operative organizations and co-operatives as an institution or movement." This research should relate to the "responsibility of directors, and its implication for how co-operatives conduct business and relate to their members."

Overall, *The Contemporary Director* is a valuable contribution to the toolkit needed by the voluntary director. With guidance, it can help bring the new director up to a point where he or she can make effective contributions; and for the experienced director, it is a valuable reference.

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