Agricultural and Rural Cooperative Viability: A Management Strategy Based on Cooperative Principles and Values

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Abstract

We examine some characteristics of agricultural and rural cooperatives and their management challenges, in order to illustrate possible applications of Jim Collin’s management concept, catalytic mechanisms, in the cooperative context. Agricultural cooperatives are experiencing complex governance issues, particularly in light of increased heterogeneity of member interests, and increased market and regulatory pressures. Member commitment is often recognized to be a necessary ingredient in the cooperative success, and while primary agricultural cooperatives are built on that commitment, new generation cooperatives need not be. In this article we argue that some of the governance issues may be alleviated by the application of creating catalytic mechanisms, a process that builds cohesion, preserves cooperative identity, and is based on cooperative principles and values. We illustrate this technique with examples of successful agricultural and rural cooperatives that already use such mechanisms in their management strategies.

Introduction

In the context of the global market, agricultural and rural cooperatives are facing new challenges in response to institutional restructuring, rapidly changing technology, and the rapid concentration of the agri-food industry. Not unlike other cooperative organizations, agricultural and rural cooperatives sometimes fail as cooperatives, disenfranchising their members, even though they may continue to be viable businesses. Member interests may be increasingly non-homogeneous (Fulton and Gibbings, 2000), so that governance becomes more difficult. At the same time, there is evidence that co-op conversions are rarely member-driven (Rural Cooperatives, 2005:11), indicating the need for greater cohesion between members’ and management interests.

We examine the proposition from Novkovic (2004), that Jim Collins’ management strategy using catalytic mechanisms (CM), can be applied to cooperatives as a
tool that promotes cohesion, and that this strategy finds a natural environment in cooperatives when they operate according to cooperative principles and values. Presumably, if there is no value of being a cooperative to its members, it will be irrelevant whether they function as a co-op, or as an investor owned business. If that is the case, producers-members will organize in a most profitable way at any point in time. Theories of cooperative demise support this scenario, and we agree with them: cooperative values-based management techniques will do little to preserve the cooperative structure if members’ objectives exclude those values in the first place.

In this article we focus on cases of cooperatives whose members place value on preserving the cooperative organization, despite a competitive business environment, increasingly heterogeneous member interests, and management practices that can create conflict between business operation and cooperative principles. Cooperative management decisions can be challenging and complex, taking into consideration multiple goals and tradeoffs characteristic of cooperative organization (Cook, 1994). We believe that the CM technique based on cooperative principles and values may strengthen both the cooperative structure and business viability by placing a clear focus on cooperative priorities. If pursued consistently, the process of building CMs will diminish the principal-agent problem, where the principal (members, or Board as their representative body) and agent (the manager) need not share in the purpose and values of the organization a priori. Problems of cooperative governance are as prevalent in rural and agricultural cooperatives as in any other cooperative organization, and to that extent we argue that some of the governance issues may be alleviated by institutionalized transparency of the identity-building (or identity-preserving) process.

The remainder of the article is organized as follows: some characteristics of agricultural and rural cooperatives and organizational challenges they experience are discussed in section two. In section three, we briefly outline the CM management strategy in the cooperative context, and in section four, we apply the CM method to selected case studies of rural and agricultural cooperatives. Section five concludes.

Agricultural and rural cooperatives

The agricultural sector is experiencing new pressures and risks associated with increased integration of the global food system. New regulation concerning health and safety, coupled with reduced price supports and other subsidies from local governments, increased competition, and intensified international interdependence, are indicative of the changes challenging food producers (Fulton and Gibbings, 2000). At the same time, technological innovations, particularly in biotechnology, are creating greater vertical integration and heterogeneity among farmers (ibid:8). The authors maintain that strong member commitment is a necessary ingredient in cooperative success, and while primary cooperatives are usually based on such a commitment, at
least initially, new generation cooperatives are not. And, while an effective business strategy can address the risks associated with increased integration, it may not encourage member interest in the original goals and objectives of the organization, necessary for cooperative success.

Historically, the economic justification for the formation of agricultural cooperatives was largely due to depressed prices or market failures, providing incentives to producers to organize collectively (Cook 1995:1155). If the reasons for market failure are removed, the assumption is that the cooperative would dissolve to convert to investor owned business. However, over time, as agricultural cooperatives have evolved, so have the incentives for organizing as a cooperative in the first place. The reasons for organizing a cooperative are not only due to economic incentives, but also to serve the interests of the user or the community as a whole. Furthermore, cooperative organization is often regarded as a social enterprise, a locus for rural development, and an effective way to reduce poverty. This expanded role adds to the likelihood that the cooperative will have a variety of qualitative and quantitative goals and objectives, presenting a greater challenge for management. Cook (1994) suggests that user-oriented organizations such as agricultural cooperatives are more difficult to manage than investor owned firms due to the different incentives faced by their managers. In particular, he recognizes that the entrepreneurial role of the co-op manager can be limited because of the “need to engage in building costly consensus seeking coalitions in order to initiate changes and improvement projects” (p. 46).

Governance problems in agricultural cooperatives can also be the result of internal pressures arising from varied interests of members and management as cooperatives mature and expand into new areas of activity (Fulton and Gibbings, 2000:10). Increased member heterogeneity, coupled with property rights problems inherent to cooperatives, increases the probability that cooperatives will degenerate into investor owned firms (convert, or demutualize). At the same time, new innovative models of cooperative organizations have emerged in response to the pressures faced by the first generation cooperatives, indicating the ability of cooperatives to evolve, adapt, and modify according to specific circumstances they operate in (ibid:22).

New generation cooperatives (NGCs) have surfaced, mostly in the US, and to some degree in Canada in the past two decades, as a response to changing conditions in agriculture (Fulton, 2001). These vertical integration processes have facilitated some of the supply flows, as well as increased capitalization. And, while a variety of assistance programs from governments and other agencies have an important role to play in the development of different forms of cooperatives, it is up to members and their management to keep the business afloat and maintain a viable cooperative structure.

We believe that in rural communities where market failures are more likely to persist, locally based cooperative organizations may be a more favorable alternative to profit motivated business. However, we also agree with the view that there are
durable benefits to each type of organization\(^1\), and that cooperatives need to focus their management strategy on their unique identity. More often than not, there is a sense that cooperatives want to differentiate themselves from the investor owned business. We believe that this sense of a different corporate culture can be turned into an advantage. Chaddad and Cook (2003), for example, indicate that cooperatives have found some creative solutions to bypass the financial constraints problems, yet not convert to investor owned business\(^2\). They resort to organizational changes, allowing outside capital injections while preserving member control.

Generally speaking, agricultural and rural cooperatives face numerous challenges, since they serve more than one purpose, often with a tradeoff. Cooperatives have multi-dimensional objectives (Cook, 1994), and management of diverse, multi-purpose organizations is that much more difficult. Within this context, the management of the cooperative would benefit from innovative strategies that incorporate the cooperative identity into its business decisions.

**Long term goals, “catalytic mechanisms”, and the cooperative principles**

Jim Collins (1999, 2001) analyzed management practices of investor owned firms whose performance turned “from good to great”. He concluded that the ingredients of success are: 1) a big long term goal the company wants to reach, which spans over decades; and, 2) mechanisms in their daily business that will automatically lead to that goal (the *catalytic mechanisms*-CM). In defining the goal, the company core values and purpose have to come through. Building mechanisms, on the other hand, is an evolving process that must include ideas from all members of the firm and takes time to develop. “Mechanisms force things to happen that reinforce the company’s core purpose, converting that purpose into action” (Collins, 1999). If devised effectively, the CM method distributes power from the center down, it has enforcing power, it attracts people who share in the firm’s core values, and it evolves.

Novkovic (2004) examines Collins’ proposition in the cooperative context, noting that cooperative members, by definition, know their cooperative’s core purpose and values, since they establish the cooperative in a voluntary, democratic process, based on cooperative principles and values (ICA, 1995). But, as cooperatives mature, members are likely to become more heterogeneous, and the original core purpose is not as obvious in a changing environment. Besides that, managers need not share in the same core values and principles, since they are hired based on their business

\(^1\) Capital-owned, and cooperative type of organization (Craig and Pencavel, 1993).

\(^2\) Chaddad and Cook, 2003, illustrate the hybrid models in their “Ownership Rights Typology of Co-operative Models” chart (p. 20).
training, and may make business decisions opposing the cooperative values\(^3\), in a trade-off between the degree of cooperation and the extent of market pressure. Therefore, an automatic system must be in place to integrate cooperative values into the core purpose and long-term goals of the business organization. Without it, a cooperative has a better chance at failing as a cooperative, even though it may survive as a business (Novkovic, 2004).

The process of defining the long-term goals and mechanisms to enforce them will include the common goals of the members – their economic, social, and/or cultural needs. It therefore addresses the issues faced by cooperative organizations essential for their survival as cooperatives: it promotes increased member integration, defines focus, and builds trust and loyalty. Two elements of building CMs in particular, have the integrating potential in the context of cooperatives: first, it institutionalizes the process, i.e., evolution and adaptation; and second, it brings the core purpose and values closer to members and managers, focusing them on a common goal. In the process of defining the core purpose, members have an opportunity to carefully rethink the importance of cooperative values and make sure they reflect the identity of the organization. In a joint effort, mechanisms can then be devised (and revisited on a regular basis to allow them to evolve) that will bring the members closer to their objectives and reinforce the core purpose of the organization. In the context of a strategic framework of cooperatives with diverse member interests (Reynolds, 1997), the process we described is a built-in mechanism to rebuild incentives for cooperation on a continual basis.

Cooperative principles, as guidelines, should be followed closely by each cooperative business, by definition. Gertler (2001), looks at the role of cooperatives in the framework of sustainable development for resource based rural communities, and, based on the guiding principles of cooperatives, points out their strength as organizations that integrate multiple economic, social, and ecological objectives. For example, he maintains that cooperatives can be “schools for sustainable development since educating members, employees, and the public is a cooperative principle” (Gertler, 2001:11). Similarly, one can strengthen the cooperative identity of the organization by marketing its cooperative advantage, both in the context of marketing high quality agricultural products, and sustainable practices that internalize the externalities.

A number of successful rural and agricultural cooperatives have built their success precisely on cooperative values and principles turned into an advantage. We discuss some case studies next, and explore the connection between business practices, cooperative principles and values, and cooperative success. We will illustrate how application of catalytic mechanisms has facilitated both the preservation of the cooperative identity and the success of the business.

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\(^3\) Cooperative values are: self-help, self-responsibility, democracy, equality, equity and solidarity, social responsibility. Cooperative principles are “guidelines by which co-operatives put their values into practice” (ICA, 1995), and they are: voluntary-open-membership, autonomy, democratic decision-making, participation in capital, education, cooperation among cooperatives, and community concern.
Agricultural and rural cooperatives and the cooperative advantage:

Case studies

Some examples of cooperatives in Fulton and Gibbings (2000) represent those with new differentiating features, niche markets, or focus on sole activities. Each of these strategies is closely tied with their cooperative identity. The more successful cooperatives are those that are able to take advantage of a business opportunity, such as a niche market, while at the same time promoting the goals of the cooperative. This relationship can be clearly identified by the end user while at the same time reinforcing the member commitment to their product or service. The following case studies were chosen for their success in developing their cooperative advantage, allowing us to identify CMs based on cooperative values (see Table 1).

Co-op Atlantic

Harvey (2003) describes the case of Co-op Atlantic, a second-generation cooperative with a membership of 135 cooperative enterprises, making it the second largest cooperative wholesaler in Canada. Co-op Atlantic serves its members through wholesale grocery operations, specialized services including credit and housing, and in various aspects of agricultural production (Co-op Atlantic, 2005). Co-op Atlantic’s agri-food strategy was to develop the “Atlantic Tender Beef Classic” brand in response to consumer requests for better quality beef that is locally grown. Growing demand for higher quality and greater nutritional value is indicative of the widespread concern for disease, ethical farming practices, and increasingly important “traceability” of the food supply chain. With this branded product, Co-op Atlantic must ensure that all other inputs in the supply chain are controlled in order to produce high quality safe food with clear linkages back to the producer. The “Atlantic Tender Beef Classic” brand guarantees the consumer complete traceability, ensuring “Food, from Start to Finish” and is identified with Co-op Atlantic’s goal of supporting the rural region’s livestock producers. At the same time, Co-op Atlantic ensures the consumer with the “tenderness guarantee or return double the price” policy that has all the qualities of a catalytic mechanism. It has enforcing power and strengthens the wholesale consumer’s (who is also a member) loyalty to the cooperative. Cooperative principles and values are built into Co-op Atlantic’s decisions, from maintaining local supply and supporting local farmers, to vertical integration with other cooperatives.

Danske Slagtier

Danske Slagtier is the umbrella organization that represents all Danish pork cooperatives. Part of the organization’s responsibilities is to coordinate product quality research and negotiate with industry on behalf of its members. The Danish pork industry has become one of the leading competitors in the global pork market, rivaling
US and Canadian exports. Much of this success is due to the contribution Danske Slagterier has made in producing a higher quality product. The goal of the cooperative members was to “ban the use of artificial growth promoters in all Danish hog production” (Hobbs, 2001:18). To realize this goal, Danske Slagterier developed the “Central Animal Husbandry Register”, whereby every animal would carry an ear tag with information that would provide clear linkages back to the original producer, and identify what food safety practices were followed. This method of traceability would ensure that livestock from member cooperatives would be consistently produced according to standards of high nutritional value and food safety. This innovation by Danske Slagterier has been credited with the success of the Danish pork industry to develop products according to specific market needs and as a credible alternative to legislative control of food safety (Hobbs, 2001). Already part of the cooperative identity of Danske Slagterier, education, research, and the dissemination of industry information has been turned into their cooperative advantage, and has contributed to the global competitiveness of the Danish pork industry.

**Naicam**

Naicam cooperative determined that it needed a “super local strategy” (Fulton and Gibbings, 2000:60, A-8) to build its market presence by diversifying according to members’ needs. Beginning as a retail cooperative, Naicam recognized that many of the agricultural inputs and services required by members of the farming community were not available in one convenient location. Eager to support the local farming community and to capture a larger share of the agricultural products market, Naicam realized that their challenge was to diversify into a variety of products and services, ranging from the sale of fertilizers to the provision of financial services. Rather than retail and services leaving, which is often the case in rural regions, Naicam contributed to the sustainability of the rural community. The strategy to rebuild the cooperative according to member needs was based on “service by service, product by product” (Fulton and Gibbings, 2000), by which each need of the community was identified, and, one by one the products were made available through Naicam. The “service by service, product by product” strategy became an automatic system by which the long-term business goal (to provide the greatest share of agricultural products and services) was integrated with the cooperative’s principles and values (support for the rural community and member service). The “Service by service, product by product” strategy performed as a catalytic mechanism: it promoted the rebuilding of the cooperative into a highly diversified supplier and contributed to the development of rural Canada.

**American Crystal Sugar**

After its demise as an investor owned business, American Crystal Sugar needed an innovative approach that would incorporate its new cooperative identity with a new
business strategy. American Crystal Sugar’s goal is “not only to be an aggressive sugar company, but to continue to be a progressive sugar business” (American Crystal Sugar Company, online). The “Quality Payment System” was introduced, which paid producers according to the yield of sugar their beet plants produced. Innovative growing practices were encouraged that would improve certain plant characteristics, and yield more of the refined sugar product the market demanded. The “Quality Payment System” helped the cooperative to become the “largest beet sugar producer in the US” (American Crystal Sugar Company, online) while encouraging member economic participation by benefiting producers in proportion to their supply of high quality plants.

Cooperative research farms

Cooperation can be especially important among agricultural producers. The high cost of farm implements, machinery, or specialized labor has made cooperation essential for many small-scale farm operations. Information sharing has always been an important component of agricultural production. A comparison of the characteristics of traditional agriculture and the “new” agriculture reveals that one of the key elements of the transformation is that information has become a “prime source of control and power” (Fulton and Sanderson, 2003). Education and cooperation is already part of the identity of many cooperatives, but those cooperatives that focus on sharing research and development as their core purpose can make the most of this cooperative advantage. Cooperative Research Farms (CRFs) is an international cooperative with members in Canada, Europe, and the United States that specializes in poultry and livestock research. Among CRFs objectives is to “plan and conduct market driven research that has the highest probability of providing financial return to members” (Cooperative Research Farms, online). CRF provides information to its member cooperatives on many aspects of animal nutrition that can be used to develop specialized products or practices, such as feeding programs. In this area, the cooperative’s research has led them to develop patented feed formulas with brand names such as “Rumen Available Protein” (Cooperative Research Farms, online). Cooperation between this umbrella organization and its member cooperatives provides producers with industry knowledge, research led innovations, and an international network of information sharing.

The Co-op Group/JustUs!

Agricultural cooperatives often have to establish contractual relationships with the private and public sector. Successful cooperatives with clear goals require that all partners meet their standards, based on the cooperative principles and values. The Co-op Group in the UK, for example, looks for suppliers that can demonstrate a commitment to “fair trade” an products. Fair trade is an area in which the cooperative advantage has obvious leverage. Cooperatives whose core purpose is fair trade are
automatically guaranteed that the cooperative values of equality, equity, and social responsibility are reinforced. Fair trade is therefore a perfect example of a catalytic mechanism. The goal of the firm is more than just profit, if it consistently enforces fair trade prices, both in its purchases of commodities, and in sales. Just Us! Coffee Roasters Co-op is a worker owned cooperative whose goal is “to be a viable business that promotes fair trade commerce” (Just Us!, online). The cooperative puts this purpose into action by delivering “100% Fair Trade and Organic” products including coffee, tea, and cocoa products. Among the cooperative’s values is “to be socially responsible with our people, our resources, our customers, and our actions”. Just Us! purchases all of its products from suppliers who guarantee farmers and producers a fair price for the products. For example, the “El Ceibo” cooperative that represents 1,800 farmers in Bolivia, supplies cocoa products to Just Us! and as a rule, guarantees farmers with 5-10 acres a minimum Fair Trade price (Just Us! Online).

Coocafe (Consorcio de Cooperativas de Caficultores de Guanacaste y Montes de Oro)

Gertler (2001) notes, “sustainable development is a strategic option for all cooperatives” (p.16). Since agricultural and rural cooperatives depend on the environment that surrounds them, the “sustainability” of the resources that they rely on is inherent to their success and becomes a natural niche for a cooperative focus. Coocafe is an umbrella cooperative that provides marketing services to member cooperatives in Costa Rica. Besides working to obtain fair prices for producers, Coocafe has expanded into many activities that support the protection of the unique environment in the highlands of Costa Rica. Their objective is “participating in the protection of 5 percent of the planet’s flora and fauna” (Coocafe, 2005). Coocafe invests in marketing activities in various environmental projects in the region, however, directly Coocafe meets their objective with the help of their member cooperatives. Coocafe supports their nine-member coffee producing cooperatives in converting their coffee pulp into organic fertilizer. The organic fertilizer is then provided free of charge to individual farmers so that organic production of coffee is encouraged. This works as a catalytic mechanism which helps Coocafe reinforce multiple goals, supporting organic production and environmentally safe practices, while promoting a “virtuous circle” Gertler (2001).

The case studies are summarized in Table 1:
Table 1: Case studies: cooperatives, goals; catalytic mechanisms used to enforce the goals, and cooperative principles and values CM’s are based on

<table>
<thead>
<tr>
<th>Cooperative</th>
<th>Source</th>
<th>Goals</th>
<th>Catalytic Mechanisms</th>
<th>Base in cooperative principles/values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cooperative Atlantic</strong></td>
<td>Harvey (2003)</td>
<td>High quality beef, locally grown</td>
<td>– Atlantic Tender Beef Classic brand</td>
<td>Supporting local farmers/Socially responsible and ethical business/Member demands</td>
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<td></td>
<td></td>
<td></td>
<td>– Tenderness guarantee or return double the price policy</td>
<td></td>
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<tr>
<td><strong>Naicam</strong></td>
<td>Fulton and Gibbings (2000)</td>
<td>Market share/Rebuild the cooperative based on members’ needs/Sustainability of the rural community</td>
<td>Service by service, product by product</td>
<td>Rural community development/Member needs/Autonomy</td>
</tr>
<tr>
<td><strong>American Crystal Sugar</strong></td>
<td>Fulton and Gibbings (2000)</td>
<td>Aggressive/Progressive business</td>
<td>Quality payment system</td>
<td>Member economic participation/Member demands</td>
</tr>
<tr>
<td><strong>Cooperative Research Farms</strong></td>
<td><a href="http://www.crf.org">www.crf.org</a></td>
<td>Market driven research for cooperatives</td>
<td>– Patented feed formulas</td>
<td>Education/Cooperation among cooperatives</td>
</tr>
<tr>
<td><strong>UK Group/Just Us!</strong></td>
<td><a href="http://www.co-op.co.uk">www.co-op.co.uk</a>; <a href="http://www.justuscoffee.com">www.justuscoffee.com</a></td>
<td>Viable business that promotes fair trade commerce</td>
<td>– Building cooperative brand names</td>
<td>Equality, equity and social responsibility/Cooperation among cooperatives</td>
</tr>
<tr>
<td><strong>Coocafe</strong></td>
<td>Gertler (2001) <a href="http://www.coocafe.com">www.coocafe.com</a></td>
<td>Environmental sustainability: Acting for tomorrow/Participating in the protection of 5% of the planet’s flora and fauna</td>
<td>– Organic fertilizer free of charge to members</td>
<td>Environmental sustainability/Social responsibility/Member needs/Education</td>
</tr>
</tbody>
</table>
Conclusion

Agricultural and rural cooperatives are facing some unique challenges as they experience greater integration and adapt to technological innovations. Cooperatives are also often dependent on the social function they perform, especially in rural areas. Increasingly heterogeneous member interests and new performance standards present management with difficult decisions. In this article we presented an innovative management strategy as one way to preserve a viable cooperative business, and cooperative identity. We maintain that the application of cooperative principles and values in everyday business is the best strategy for cooperative survival. The process of building goals and catalytic mechanisms (Collins, 2001; Novkovic, 2004), revisiting them on a regular basis, and including all members in the process of their development, will ensure that the goals of members are compatible with the goals of the management. Institutionalized transparency of the identity building process by the use of catalytic mechanisms will induce cohesion between member and management interests, member loyalty, and will automatically lead the cooperative to the realization of its goals.

We showed some examples of agri-businesses and rural cooperatives that already apply such mechanisms, and have clearly defined goals, based on cooperative principles and values. Our claim, then, is that successful cooperatives will be more likely to maintain their cooperative structure if they focus their business strategy on their cooperative identity. Defining the cooperative advantage provides the cohesion mechanism, identified in the literature as a necessary condition for cooperative survival. While it may not be a sufficient condition, and cooperatives may still decide to convert to investor owned business, without it a cooperative is almost certain to turn to more uniform goals based to a greater degree on economic outcomes, while de-valuing non-economic principles that define a cooperative.

References:


