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CURRENT ISSUES IN STRATEGY FOR AGRICULTURAL COOPERATIVES

Michael Boland, Julie Hogeland, and Greg McKee
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Business strategy is defined as a set of consistent choices made by a firm's top management, within a given time horizon, supporting their collective understanding of how they intend to achieve the firms' selected outcomes within a competitive environment. The scope and sequence of these choices is determined in a process of strategy development, implementation, and assessment. Strategy is delegated by the cooperative board of directors to the chief executive or general manager, but the board must be involved in the process. Strategy is an important topic in director and management leadership development programs. Agricultural cooperatives are the vertical extension of the farm business and a strategy must encompass this aspect. Strategy alignment on patrons' interest is critical in ensuring the success of the cooperative. This article summarizes the results from a survey of cooperative leaders to better understand current issues in strategy development for agricultural cooperatives.

Strategic Issues Underlying the Cooperative Business Model

The expert panel of cooperative leaders identified a number of strategic issues as critical to the continued success of cooperatives. Important external concerns related to strategy identified by the panel included globalization and market volatility. Four important issues included strategic planning, human resource management, efficiency and market viability. While these issues are not unique to cooperatives, the cooperative business model creates unique challenges in evaluating, developing and implementing these strategies. These four issues were further refined during the August 4 2011, Washington, DC conference described in Kenkel and Park into three issues: the process of developing a strategic vision among cooperative members, traditional approaches to assessing the competitive environment, and the unique human resource needs of cooperative firms. These three issues are defined below in light of the globalization and market volatility external concerns related to strategy.

The Dynamics of Developing a Shared Strategic Vision

Prior to developing a strategic plan, members of cooperatives must organize themselves based on a central business proposition. However, the origins of the cooperative, the physical constraints of product marketing, member attitudes toward changes in the competitive environment, and changes in member attitudes toward the central business proposition uniquely constrain the strategic planning process in cooperatives.

Cooperatives are typically established around a simple business proposition involving a homogenous set of member users. For example, California's micro-climates have defined production boundaries for many tree nut, tree fruit, vegetable, fruit, and other specialty crop cooperatives while Midwestern cooperatives were established to store and market commodity grains. A common outlook and shared demographics often cements member solidarity in a cooperative's early years. Cooperative grain, farm supply, and dairy cooperatives reinforced their commitment to community development by being the largest local employer. Such cooperatives provide economies of scale, market access, or better prices and services. This rationale for cooperation became the basis for many locally-owned Midwestern creameries, farm supply, grain and livestock marketing cooperatives.

As a cooperative goes through its life cycle, there may develop growing differences or heterogeneity among members. This has an impact on the vision of the cooperative. Mature cooperatives may experience an identity crisis demanding a new definition of what the cooperative shall do or be. Heterogeneity may be revealed through marked discrepancies in member equity contributions relative to cooperative use. Differences in average production costs among members can lead to different expectations for prices in marketing cooperatives. The cooperative may offer an array of incentives distinguishing among member needs and preferences. The challenges of participating in an increasingly capital intensive and industrialized food chain have made capital acquisition a priority among cooperatives.

A strategic vision that fosters shared beliefs and values within the cooperative can also be an effective response to member heterogeneity. Contemporary examples might be a commitment to sustainable practices or being a low-cost provider. A cooperative member's role as both customer and owner creates challenges as the cooperative responds to changing business environments. When the member's products are perishable or storage costly, cooperatives may be faced with deciding which members' products get sold first. Likewise, cooperatives may define their mission as marketing only member output. This can hamper the cooperative's ability to compete as a reliable year-around supplier or to meet changing consumer preferences. As an example, consumer preferences for mixed fruit drinks create challenges for a cooperative owned by cranberry growers.

Globalization confronts cooperatives with new challenges relating to competition, risk management and market demands. Globalization may subject the cooperative to new competitors in Chile or China. Cooperatives can insulate members from such competition by fostering product differentiation and provide market access which may be the difference between surviving or not. The increasing influence of global supply and demand factors on U.S. fertilizer price and supply has made global issues a major risk factor for farm supply cooperatives. On the other hand, global alliances representing crop varieties or packaging different from domestic markets have allowed fruit and nut cooperatives to be nimble, reliable suppliers without competing with members' production.

Understand the Competitive Industry Set in which the Co-op Operates

Once a central business proposition is adopted, a vital, initial step for strategy development is assessing the market conditions and associated industry in which the cooperative firm operates. Such industry analyses are critical for educating boards and managers, who then bear primary responsibility for strategy development. The importance of this step was borne out in The National Food and Agribusiness Management Education Commission report (Boland and Akridge, 2004) which found that industry analysis was an important tool of a capstone agribusiness management undergraduate course and essential in a graduate course, suggesting that current industry professionals regard this skill as indispensable upon entering the cooperative business workforce. For instance, boards of directors may become complacent when a long-term executive has understood the competitive position of the co-op and led the organization over time. The development of the next generation of leaders is critical for success in the future because strategy implementation occurs through people.

During the process of implementation or soon after realizing its outcome, cooperative business executives will want to evaluate the results of their strategy. Previous studies have attempted to establish a standard for evaluation by comparing the performance of cooperatives relative to other cooperatives. Such studies are useful for broad knowledge, but a better understanding of strategic outcomes can be had by comparing the co-op with other firms in the industry in which it operates. For example, a dried fruit firm should be compared against other dried fruit firms rather than against a cooperative operating in the tree nut or fresh tree fruit sectors. Similarly, an agricultural co-op that markets its member's grain and provides agronomy, energy, feed, and other inputs should be compared against similar firms within its geographic market.

A strategy assessment process that considers the complete competitive environment for their firm is important when developing decision cases, because it allows cooperative business executives to understand how a the co-op positions itself against other firms over time. Strategy formation typically occurs over time as firms realize their position, such as being a low cost or large market share versus a branded food manufacturer. Many cooperatives were formed within the last one hundred years and strategy has evolved over time based on industry conditions.

Tools for successful strategy evaluation can be provided through director and manager leadership development education. Many directors do not have a background in economics. They may understand one of the five forces underlying competition based on their role as a supplier, but may lack full knowledge on the other forces. Thus, concepts related to barriers to entry and exit, knowledge of the supply chain and how buyers respond, as well as how consumers and ingredient buyers regard substitutes, is important. These cannot be taught in a day, but require an in depth understanding built upon education and knowledge.

Human Resource Needs and the Cooperative Firm

Nearly 70% of the expert panel indicated that attracting and maintaining quality human resources was an extremely important issue for agricultural cooperatives. Other human resource issues such as the succession of management and key personnel, and aligning the incentives of managers and employees with member interest also received high ratings of importance. Human capital at the chief executive and director level is essential for strategy development. For instance, the planning function in cooperatives is unique when compared with other business models. In an investor-owned firm, strategic planning is typically the role of the management team. In cooperatives, the board represents the membership and is accountable to it for explanations of corporate actions.

Hence, directors play a role in assessing the competitive environment of the cooperative, setting the objectives for the firm to pursue, and setting overall guidelines for using resources to implement a series of steps for achieving those objectives. Furthermore, the plan may be related to the economic rationale for creating the cooperative. Succession planning for the board of directors is more difficult in a cooperative because directors are elected from the producer membership. Term limits and low or nonexisting remuneration for directors often leads to continual turn over in the board.

The succession of the chief executive officer is another critical issue for agricultural cooperatives. The panel reported mixed or negative experiences in hiring managers who did not have experience with the cooperative business form. Cooperative managers operate under a different set of objectives, work with a board of directors consisting of producer-members and have a closer, more constant communication with their customer-owners. This creates challenges for chief executives with a background in investor-owned firms and places more emphasis on development of internal talent.

An agricultural cooperative's employees are critical for its success, since they may be the primary means by which the member interacts with the firm. As a result, the knowledge, skills and commitment of the employees to the member-stated objectives of the cooperative contribute value to the firm. Cooperative managers must emphasize principles of training and personnel development in order to successfully implement their strategy.

Obtaining and developing qualified human resources is a challenge for cooperatives. Two thirds of the survey respondents indicated this was an “extremely important” issue, the strongest possible affirmative category of response; and 28% indicated this was “very important” in the Delphi method, described in the introduction article in this theme by Kenkel and Park, used for this research. Discussions with some of these executives indicate the strength of the response is, at least in part, related to the difficulty of attracting employees to rural areas.

Survey respondents indicated developing employee capacity was also an important issue. Approximately 89% of respondents indicated this was an “extremely important” or “very important” issue. Respondents were asked about their attitudes toward managerial succession planning. Of 51 respondents to the question “If your organization would prefer an outside CEO candidate, please indicate your preference for the following: candidate from a cooperative business organization,” 73% indicated they preferred this type of candidate as opposed to being neutral or not preferring this type of candidate. Hence, members of the cooperative business community view the attributes of successful cooperative business management as being unique relative to conventional corporations or the government sector.

In addition to the unique challenges of attracting and developing human resources with knowledge of the cooperative business form, agricultural cooperatives encounter traditional challenges with employees as well. Margin structure and profit level impact compensation levels, while access to debt capital affects the efficiency with which employees use financial assets. As boards of directors invest in the development of their chief executive, it may be more likely that financial resources will be used to their most efficient application.

Closing Comments

Strategy remains an important topic for directors and managers. Clearly, cooperatives should recognize the unique nature of patrons and the vertical extension of the farming operation in strategy formation and implementation. The development of a common vision that reflects patron interests is a critical issue. A better understanding of the competitive environment for all firms in an industry is needed in order to assist managers and directors in evaluating strategy. Strategy implementation is carried out by individuals and the survey results indicate that additional talent is needed. Education on this topic is critical for director and manager leadership development.

For More Information

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Michael Boland (boland@umn.edu) is E. Fred Koller Professor and director of The Food Industry Center, Department of Applied Economics, University of Minnesota, Saint Paul, Minnesota. Julie Hogeland (Julie.Hogeland@wdc.usda.gov) is an Economist at the U.S. Department of Agriculture Rural Development, Business and Cooperative Programs, Washington, D.C. Greg McKee (Gregory.McKee@ndsu.edu) is Assistant Professor of Agricultural Economics in the Department of Agribusiness and Applied Economics at North Dakota State University and director of the Quentin Burdick Center for Cooperatives, Fargo, North Dakota.

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