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DEPARTMENT OF AGRICULTURAL AND RESOURCE ECONOMICS
DIVISION OF AGRICULTURE AND NATURAL RESOURCES
UNIVERSITY OF CALIFORNIA AT BERKELEY

WORKING PAPER NO. 642

FARMERS' KNOWLEDGE ABOUT COOPERATIVES

by

Jerome Siebert

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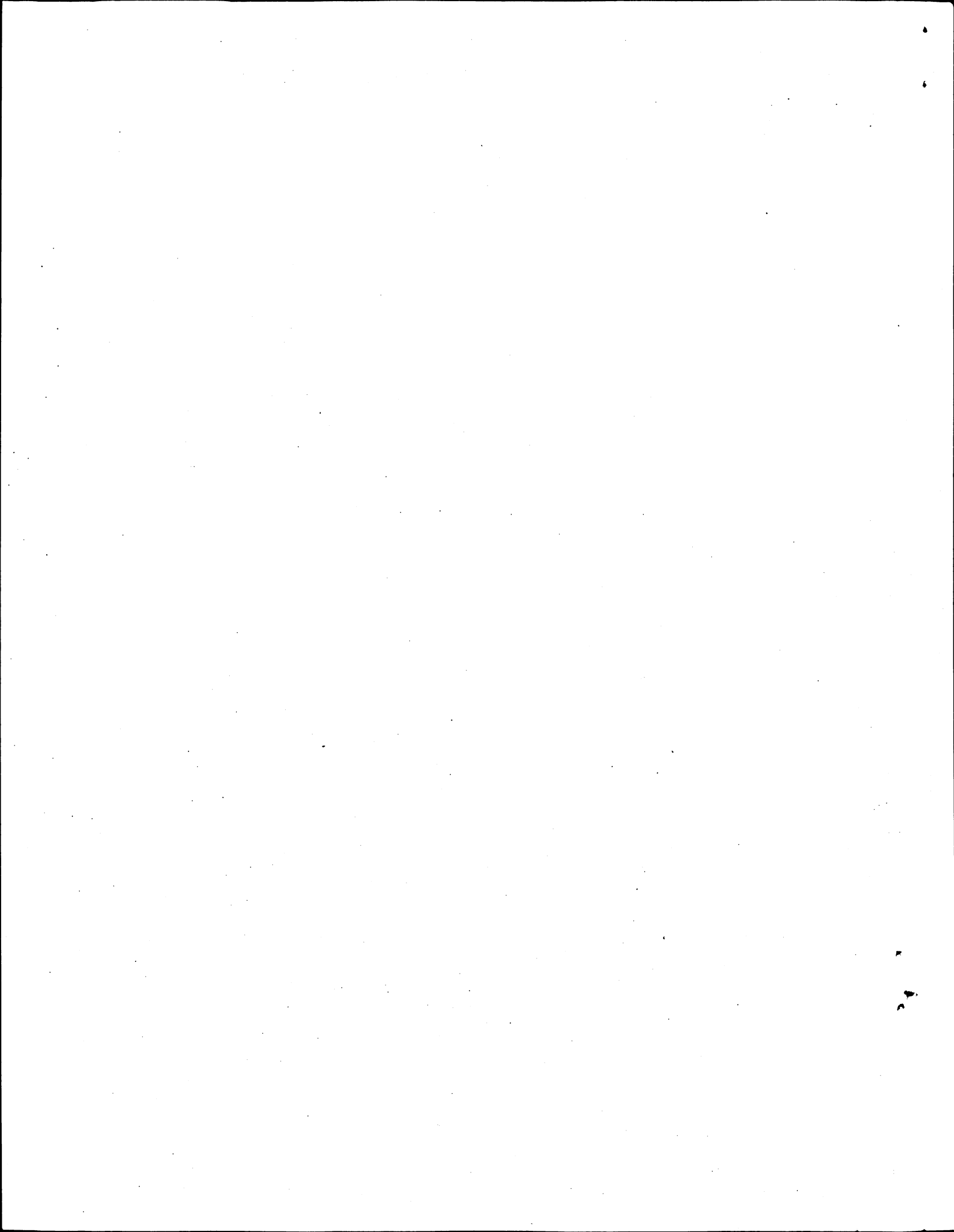
Jerome Siebert

DEPARTMENT OF AGRICULTURAL AND
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February 10, 1993

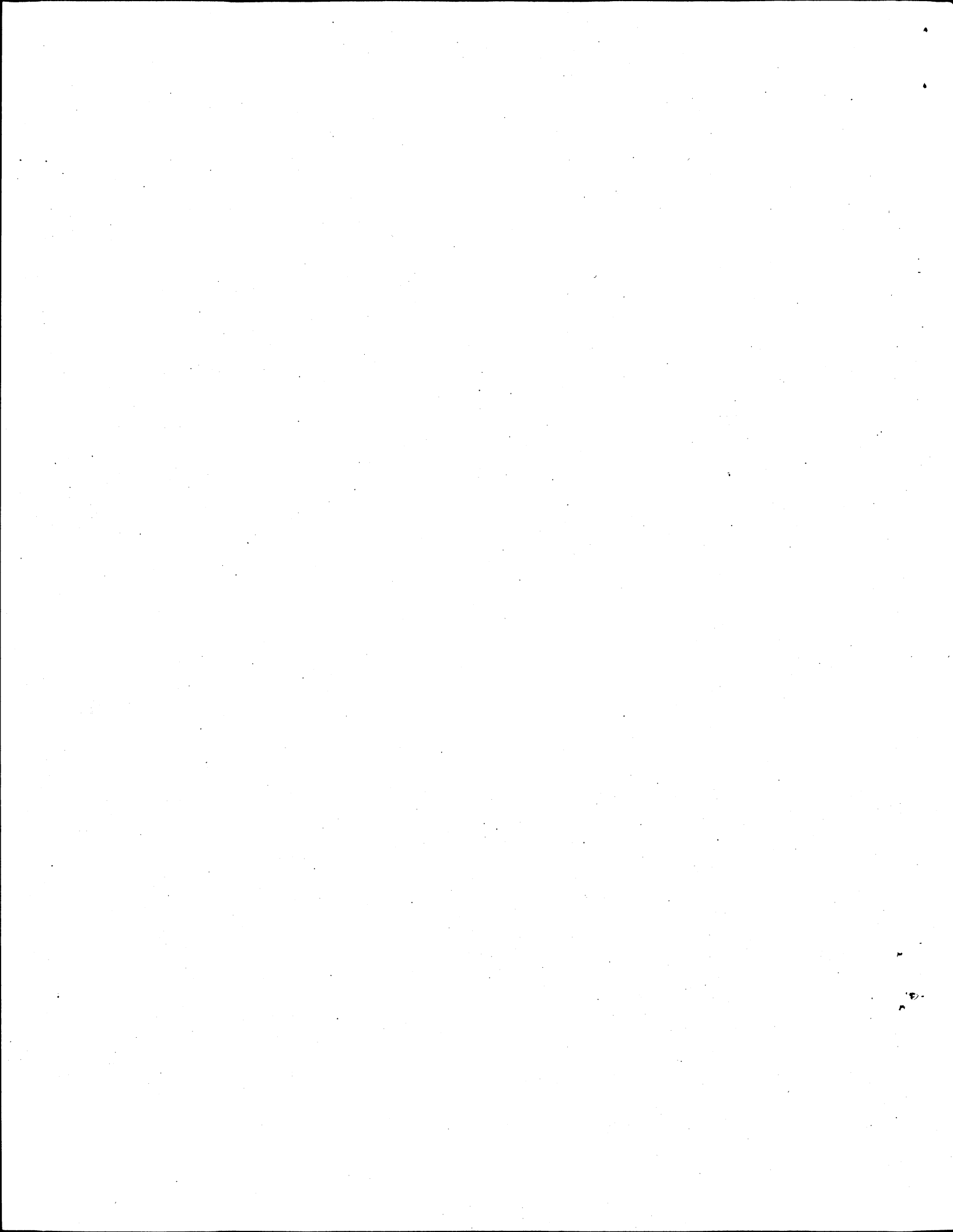


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FARMERS' KNOWLEDGE ABOUT COOPERATIVES

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INTRODUCTION

[This report investigates and analyzes producers' knowledge, perceptions, and expectations with respect to cooperatives. The analysis found that producers join cooperatives with the expectation that they will provide more stable and enhanced returns. Producers look upon cooperatives as a positive force for marketing their products. Further, they expect cooperatives to be leaders in all phases of business, including legislative and government affairs.]

In carrying out their responsibilities to their members, increased education emerges as a high priority for cooperatives. This need for education and information covers a broad spectrum of issues that relate to cooperatives' operations and decisions, future directions and strategies, financial policies and results, the role of the cooperative in its respective industry, and external issues affecting producers. Further, the need for education about cooperatives and their activities and performance is desired by both members and nonmembers.

Cooperatives are in a unique position within many agricultural industries to provide leadership and educational and informational activities. In doing so, they need to be cognizant of producers' knowledge, perceptions, and expectations. This report, which was undertaken with the cooperation of twelve cooperatives and is based on a survey of members and nonmembers, presents information and recommendations that cooperatives should consider in developing their leadership and educational strategies and plans.

BACKGROUND

Cooperatives have had important roles in the development of agriculture in California. These roles have been varied and diverse over time by commodity. According to a study conducted in the mid-1980s, some 227 cooperative forms of business were in operation with nearly 69,000

members¹. In many aspects, cooperatives are no different from other forms of business. They must follow the same management and marketing strategies and principles to compete. In many cases, they are competing in markets that are increasingly global in nature and against firms that are multi-national and multi-product in scope.

The world's competitive environment has changed substantially during the past decade. In order to survive, firms in the food and fiber industry, including cooperatives, need a global vision regarding production and marketing plans. In doing so, a firm has to develop a flexibility that will enable it to adjust and adapt to changing economic, political, and market conditions. Many firms and industries are turning to political solutions to maintain or secure a competitive edge over foreign producers.

The changing global competitive environment has been coupled with significant changes in the structure of the food and fiber industry in the world. Since the late 1940s, the number of food processing companies in the United States has been steadily declining with the survivors even larger in size. The implication of this change is that the larger companies are more likely to be multi-national and global in their outlook. They look to market requirements first, and then access products from sources where the quantity, quality, price, and market delivery meets their specifications. In addition, they develop and have access to market information that is not available through public mechanisms such as government publications. Finally, fewer processors and sellers will also mean fewer buyers which shifts bargaining power in their favor.

The changing structure of the food and fiber industry poses a significant challenge for cooperatives. They must compete in the marketplace against large multi-national firms as well as with producers who furnish the raw product and membership base.

The Problem

This change in competition means that cooperatives need to adopt strategies and plans that meet their competition in the marketplace which, in some cases, means a significant change in their business. In doing so, cooperatives must be able to explain their rationale and actions to their membership and gain their approval. Cooperatives are organized around a basic set of principles that govern their operation (Appendix F). It is important that members understand and accept these principles, and the decisions that need to be made to keep the cooperative viable and competitive.

¹ See Smith, David K., and Henry N. Wallace, "Cooperatives in California Agriculture," United States Department of Agriculture, Agricultural Cooperative Service, ACS Research Report No. 87, February 1990.

The importance of cooperatives maintaining their membership base is crucial to survival. Cooperative members provide both capital and raw materials (patronage) to the business. Increasingly, cooperative members, particularly producers of quality raw materials, are being solicited by other firms. When producers leave a cooperative, the patronage leaves (impacting economies of scale) and capital is lost (impacting crucial financial ratios).

Communication to members regarding the nature and purpose of the cooperative and the changes that need to be made is just as important to a cooperative's survival as meeting its competition in the market. Also crucial is communication from cooperative members about their concerns and the actions that will be taken to deal with them.

Producers join and leave cooperatives for a number of reasons. In order to determine producers' knowledge and understanding of the underlying factors of cooperative operations and performance, a survey was developed. It explores the nature of producers' decisions to join a cooperative, their understanding of cooperatives' goals and performance measurements, their expectations of cooperatives' performance, and their need for education and communication. By analyzing producer responses to questions in these categories, it is the intent of this report to develop recommendations that will enable cooperatives to enhance their competitiveness for producer members. The survey is directed at both members and nonmembers of cooperatives to provide information about their knowledge and expectations of cooperatives in today's business environment.

THE SURVEY

The survey was developed and undertaken with the cooperation and participation of twelve California cooperatives. It was mailed to 2,500 cooperative members and 500 nonmembers during February and March of 1991². The twelve California cooperatives that participated are: Blue Diamond (almonds), Butte County Rice Growers (rice), Calavo (avocados), Calcot (cotton), Cal-West Seeds (seed crops), California Canning Peach Association (peaches), California Tomato Growers Association (tomatoes), Dairyman's Cooperative Creamery Association (milk), Raisin Bargaining Association (raisins), Sunkist (citrus), Sun Maid (raisins), and Tri Valley Growers (multi fruit and vegetable). (See Appendix E for a detailed discussion of each cooperative.)

²The survey was financed by the University of California Center for Cooperatives and forms the basis for developing educational materials that can be used by cooperatives to educate both members and non-members.

Of note is the inclusion of three bargaining cooperatives: the California Canning Peach Association, the Raisin Bargaining Association and the California Tomato Growers Association. The reason for doing so was to provide a diversity of structure and viewpoints. The inclusion of these three provide a breadth of commodities and industry structure. Members of bargaining cooperatives do not necessarily have membership in a marketing or supply cooperative. In addition to price negotiation, bargaining cooperatives represent their members' interests to non-cooperative processing and marketing firms, and provide an array of services to their members. Independent discussions with producers separate from this survey have indicated a strong interest regarding bargaining cooperatives or associations. As the structure of many food and fiber industries is becoming more concentrated with fewer firms, bargaining cooperatives take on increased importance in activities such as marketing functions and relaying information.

The twelve cooperatives represent a combined total of nearly 25,000 members and bring to the survey a diversity of crop, structure, purpose and function, scope of activity, size, and geographic location. From these cooperatives, a random sample of producers consisting of cooperative members and nonmembers was developed. Nonmembers were chosen randomly from lists maintained by the participating cooperatives. The responses from the nonmembers are a check point to determine if any significant variance in answers occurs.

Because of the nature and method in which the sample was constructed, it should not be construed as being representative of all cooperative members or nonmembers in California, or necessarily of those cooperatives involved in the survey. The results can be construed to indicate some trends from which conclusions can be drawn based on other data and knowledge that are available. (A more detailed description of how the sample was derived is contained in Appendix D.)

The Questionnaire

The questionnaire used in the survey was developed based on the cooperative principles; economic, political and structural changes taking place that affect cooperatives and their members; and communication needs. Individual questionnaires developed for each cooperative centered on a set of generic questions (See Appendix A). The questionnaire, containing six pages and 71 questions, was divided into five parts: general background information on each individual; respondents' knowledge about principles of cooperation (Appendix F); knowledge about goals and performance of cooperatives; legislative and government relations issues; and communications with producers. Responses to questions were in one of three forms: varying degrees of agreement with a particular statement (six categories from strong agreement to don't know); ranking of responses; and

providing grades that reflected how well the cooperative performed in a category.

FINDINGS

The response rate among individual cooperatives varied considerably. Of the 2,500 questionnaires mailed to cooperative members, 33.2 percent were returned. The return rate among individual cooperatives ranged from 55.8 percent to 16.6 percent, whereas the response from 500 questionnaires mailed to nonmembers was only 19.2 percent. It was anticipated that the nonmember response would be lower than that for members because, by definition, nonmembers have reason not to be cooperative members, and would have neither the interest nor the motivation to fill out the questionnaire. While the results for nonmembers is included in this report, they should not be interpreted as being representative of the nonmember at large in California. The results are interesting only from the standpoint of comparison and discussion.

Further discussion of the response rates can be found in Appendix B along with the quantitative results to questions in the order that they are presented in the questionnaire. Four sets of values for each question are given: 830 cooperative member responses; 679 cooperative member responses without inclusion of the responses from the members of the three bargaining associations; 151 responses from the three bargaining association members; and responses from the 96 nonmembers.

In this report, the results of the survey are presented by grouping the questions with regard to the various issues related to the producers' knowledge and understanding of cooperatives.

Respondents' Profiles

The first part of the questionnaire compiled background on the respondents. 56.3 percent of the respondents were sole proprietorships, 26.1 percent were partnerships, 17.3 percent were corporations and 0.3 percent were trusts. Position of the respondent within the enterprise was largely the farm owner or manager (97.3 percent) compared to an administrative or recordkeeping position (2.4 percent) or other employee (0.4 percent).

Profiles were developed on size of farm, number of crops, farming experience, age, education, and cooperative membership (see Appendix C). These profiles were developed to understand the make-up of the respondents in the survey.

The size of the farm varied from under 20 acres to over 1,000 acres. About 40 percent were under 100 acres while 60 percent were over 100 acres in size. Over 25 percent owned and leased more than 500 acres. The number of different crops produced by the respondents varied, but most produced two crops or less. Over one-third produced only one crop.

About 40 percent of the respondents had been in farming less than 20 years; 60 percent had been in farming more than 20 years; and almost 25 percent had been in farming more than 40 years.

Slightly over half of the respondents were over 56 years in age. Of the remainder, most were in the 36 to 55 age category. Nearly 30 percent were over 66 years in age.

In terms of education, most respondents had the equivalent of a bachelor's degree from a college or university. In fact, over two-thirds had an educational level that included some educational training at the college or university level.

In terms of years of membership in a cooperative, about half had less than 15 years while half had more than 15 years. Nearly 25 percent had membership of more than 25 years while over 36 percent had membership of less than 10 years. Over 40 percent of the respondents belonged to only one cooperative. Another 30 percent belonged to one additional cooperative, while the remainder belonged to two or more additional cooperatives. With most respondents (60 percent) having membership in two or more cooperatives, a conclusion can be drawn that they have a pro-cooperative bias.

Reasons for Joining a Cooperative

While the background results indicated significant support for cooperatives among the respondents, Questions 11, 23, 30, 49, 50 and 60 provided more background on why producers join cooperatives. Question 11 asked the respondents to provide a ranking of the reasons producers join cooperatives. Of the reasons given, the alternative, *My cooperative provides the most consistent returns*, was ranked first followed by *My cooperative provides the best total returns*. The alternative, *The cooperative provides a home for my product*, was a close third. The other two alternatives, *My cooperative provides market development*, and *My cooperative provides industry leadership*, were fourth and fifth. The rankings are not surprising, and are mostly paralleled among both groups of cooperatives (marketing cooperatives and bargaining associations) as well as by the nonmember group. One departure- which is not surprising- is the ranking by bargaining association members of the alternative, *The cooperative provides a home for my product*, as fifth. Bargaining associations, unlike marketing cooperatives, are not looked upon as providing a home for producers' products.

However, question 30, *Having a home for production is important*, had strong agreement from all groups of producers. This question is directed at ascertaining whether one of the reasons for joining a cooperative is to have a secure marketing outlet (home), and leads to the conclusion that having a home for production is very important to producers and is a motivating factor to joining a cooperative.

While the leadership issue was ranked lower than other alternatives, it is still important. The response to question 23, *A cooperative should be the leader in every aspect in its industry*, also had relatively strong agreement. Cooperatives have traditionally provided leadership among producer communities in various sectors of the California food and fiber industry. This question addressed the strength of that expectation among producers. This issue is further supported by the strong response to question 60, *It is necessary for cooperatives to provide leadership on issues requiring legislative and government attention*. This question is related to question 23, but more specific in the context of political activity. This question, which is somewhat controversial given the risks involved, seeks the degree of support for politically related activities by cooperatives. Cooperatives have traditionally represented their members interests in a broad spectrum of issues that include but are not limited to governmental programs. While not the motivating factor that other issues may have, leadership is expected by those who would join a cooperative.

Other indications of support for joining a cooperative come from responses to questions 49 and 50. Question 49, *If another company offered to buy a cooperative at three times the value of its members' investment, its members should sell*, attempts to place a value on a producer's assessment of the cooperative, and how crucial the cooperative is to the producer's welfare. There was strong disagreement with question 49 indicating that the respondents would not be in favor of selling their cooperative, even at three times their investment.

Question 50 asked respondents *If the cooperative did not exist, rank as alternatives a) joining or forming another cooperative, b) selling to a non-cooperative that pays the highest price, c) selling to a non-cooperative that offers the same services, d) produce other crops, e) do my own marketing, or f) exit farming*. This question is designed to test how committed a respondent is to the cooperative concept (choice a) as well as what attributes they like about cooperatives (choices b and c). Given alternatives to their cooperative, the response to question 50 ranks the first as *forming or joining another cooperative*, followed by *selling to a non-cooperative that pays the highest price* as second, *selling to a non-cooperative that offers the same services* as third, and *self marketing* as fourth.

A note should be made here about question 50. The question differed among marketing cooperatives, supply cooperatives, and bargaining associations. The alternatives posed were the same except for e, *Do my own*

marketing. For bargaining association members, this alternative was worded to read *Join (if not already a member) a cooperative that markets my commodity*. While the wording of this question did not affect the ranking of alternatives between the other nine cooperatives and the three bargaining cooperatives, it did have an impact on the degree of support for alternative e) compared to others. Bargaining association members gave alternative e) a much closer ranking to alternative c than the nine other cooperatives as seen in the following table³:

<u>Alternative</u>	<u>Other Cooperatives</u>	<u>Bargaining Associations</u>
a	1.91	1.80
b.	1.91	2.30
c.	2.41	2.84
d.	4.48	4.30
e.	4.02	3.16
f.	5.50	5.58

Bargaining Associations

In addition to question 50, bargaining association members were asked another related question which was not asked of the other nine cooperatives. The question was *If your bargaining association did not exist, rank the following as possible consequences: a) Producer prices would be lower, b) Terms of trade with processors would be worse, c) Services to growers would be worse, d) Grower representation in the industry would be diminished, e) Other*. The results of this question give some idea of why producers join bargaining associations. Respondents ranked, in order of first to last a) price enhancement, b) terms of trade, and d) representation of producers or producer leadership as important factors for a bargaining association to be in existence. Alternative c) was a distant last which probably reflects the existence of ample alternatives for services to the producer.

Question 26, *The presence of a "bargaining association" or cooperative provides stability*, provides further support for these organizations. There are a number of bargaining associations in California. These associations usually represent the nonmembers of cooperatives in an industry, and not only provide bargaining for price, but for other services as well. Some producers view these associations as not being true cooperatives. This question addresses the issue of whether producers see these associations in a positive or negative light. The response to this question was strongly favored and was uniform among respondents from the twelve cooperatives as well as from nonmembers. Because of their bias against cooperatives, nonmembers' support was not as strong as that of cooperative members, but it was still in the agreement range.

³ The rankings may be read as the lower the number, the higher the ranking; the higher the number, the lower the ranking. Hence, the ranking for bargaining associations was, from highest to lowest, a, b, c, e, d, f.

Cooperatives as an Alternative

Question 24 asked whether *Cooperatives provide an essential alternative for both members and nonmembers*. Cooperatives compete with other entities in an industry, and even if producers do not become members, the existence of a cooperative provides an alternative for comparison of returns and a countervailing competitive force. The same is true for non-cooperative forms of enterprises. This question also relates to a controversial area among cooperative producers that they're providing an "umbrella" for the industry which has benefits for everyone even though the cost is not being borne equally. There is solid agreement with the statement posed in question 24, even from nonmembers. The conclusion is that there is latent support for cooperatives, even if only to assure competition among organizations for producers.

The following question, 25, *Cooperatives are worthwhile even if nonmembers who don't financially support them receive some benefits*, addresses the issue of cooperative members providing leadership, stability, and other services to an industry while contributing equity capital that nonmembers don't. The argument is that the programs that cooperatives undertake are paid for by their members, and that they are providing an "umbrella" or benefits for the rest of the industry for which they're not making a final contribution. Response to this question received agreement from members of bargaining associations but other producers tended to be more neutral about it.

Disadvantages of Cooperatives

Respondents were asked in question 55 for a ranking of the disadvantages of being a cooperative member. The question was *The disadvantages of being a member of a cooperative are a) returns are not as high as in a non-cooperative business, b) takes too long to receive a final payment, c) too much money tied up in retains, d) management dictates to growers, e) producer interests aren't represented, or f) other*. The options given are ones that are offered by producers in interviews independent of the survey. Among cooperative members, respondents ranked *takes too long to receive a final payment* as the top reason, followed closely by *too much money tied up in retains*. Ranked third was *returns not as high as in a non-cooperative business*, while ranked fourth was *management dictates to growers*. The ranking among nonmembers was the same for the first two, but the third and fourth choices were reversed. This latter ranking by nonmembers might suggest that management is an issue in their consideration of membership in a cooperative, although not as important as the question of final payment and retains.

It is not surprising that the top two disadvantages were the issues of final payment and retains. Independent interviews with producers would lead to this conclusion. Hence, the survey reinforces common knowledge among cooperatives regarding producers' concerns.

Cooperative Goals and Performance

A large number of questions were directed at assessing cooperatives' performance and establishment of goals. While contained in the latter portions of the survey, question 54, *Cooperatives succeed because of a) sufficient capital, b) wise use of credit, c) efficient management, d) knowledgeable boards of directors, e) adequate business margins, f) informed membership, g) balance short run revenue gains with long run of profits, h) avoid tying up too much money in fixed assets, g) avoid overextending credit to members, and i) other*, seeks to establish reasons for cooperatives' success or failure. This list was taken from the principles of cooperation listed in Tinley and Erdman⁴. It represents some common management and financial attributes of successful businesses. Respondents were asked to rank the listed reasons in order of preference. Out of the nine alternatives listed, *efficient management* was clearly the top reason with other alternatives significantly distant. The nonmembers also followed this rationale. The second ranked reason was *knowledgeable boards of directors* followed by the third, *sufficient capital*. These last two reasons formed a second tier. A third tier of rankings was *wise use of credit, adequate business margins, and balancing short run revenue gains with long run sustainability of profits*. Hence, according to producers who participated in the survey, management coupled with a knowledgeable board are key to a cooperative's success

With respect to how cooperatives should be managed, question 44 asked for an evaluation of the statement *Managing a cooperative is unique and must be evaluated differently from non-cooperative forms of business*. Cooperatives, in fact, have some characteristics that are different from other forms of business. These are pointed out in the discussion on the principles of cooperation. However, they also have many of the same similarities, particularly with respect to controlling costs and marketing. This question is intended to elicit from the respondents their sense of how a cooperative should be evaluated.

Response to this question was weak agreement which implied a form of ambivalence. Further insight into the attributes of good cooperative management are found in question 53, *Rank the following as attributes for management to be effective: a) ability to handle people, b) properly plan for the efficient use of employees/financial resources, c) understand and be responsive to member concerns, d) plan for the future, e) ability to work*

⁴ Erdman, H.E., and J.M. Tinley, "The Principles of Cooperation and Their Relation to Success or Failure," University of California, Agriculture Experiment Station, *Bulletin*, February 1957.

with boards of directors (even difficult ones), f) meet members and the public equally well, and g) other. This question lists some of the common attributes that management should possess as listed in the principles given by Tinley and Erdman. The top two reasons ranked by respondents to the survey were *properly plan for the efficient use of employees and financial resources* and *understand and be responsive to members' concerns*. The same ranking was given by nonmembers as well. Certainly this response reinforces the double challenge of cooperatives as expressed in the principles of cooperation which insist on balanced attention between the business management of the cooperative and member programs. However, bargaining association respondents provided a significantly different ranking which reflected the makeup of the kinds of activities and programs they present to their members. Their ranking was to put *members' concerns* first, followed by *ability to work with boards of directors* second. *Planning for the future* was the third ranking followed by *efficient use of employees and resources*. This difference in ranking should not be surprising since bargaining associations are more focused on providing member services and programs, and hence, place a higher premium on the attributes of management directed to them. In addition, the other nine cooperatives are engaged either in processing and marketing or supply functions and would place a higher premium on management attributes directed towards them.

Board of Directors' Priorities

Question 52, *Rank the following as priorities a cooperative's board of directors should undertake: a) closer supervision of management, b) closer control of operating costs, c) increased responsiveness to member concerns, d) planning for the future, e) develop plans for continuous and dynamic leadership in a cooperative, e) looking for ways to grow, and f) other*, lists a number of priorities that are traditionally board responsibilities. However, it also lists as choices (a and b) priorities that might suggest more involvement in areas traditionally reserved for management. Among the twelve cooperatives, the top two were *plan for the future* and *develop plans for continuous and dynamic leadership*. The bargaining associations differed in this ranking only by reversing the order of priority by an insignificant margin. The third ranking of priorities was *closer control of operating costs* followed by *increased responsiveness to member concerns*. The bargaining associations differed significantly in their rankings with *looking for ways to grow* as third, and *member concerns* as fourth. Again, this ranking is explained by the kinds of programs that bargaining associations undertake compared to marketing and supply cooperatives. Marketing and supply cooperatives, because of their investment in assets would be more concerned about closer control of operating costs. However, it can be argued that this function is not a responsibility of the board but of management. Some boards are criticized for their obsession with "tinkering" with operations instead of setting goals and objectives for management to accomplish. Bargaining associations are

usually looking for increased markets for their members in order to enhance their bargaining capability.

Expansion and Size

Question 36, *Cooperative members benefit from a continuous expansion of its business*, seeks an evaluation of the importance of continually expanding a cooperative's business. Such a question suggests that continuous expansion means developing new markets, increased requirements for capital, and potential greater returns. However, some producers feel that there could be limits to growth, and that cooperatives might be better off seeking market "niches." In addition, it is possible that diseconomies of scale could take place. This question, and question 37, *There are no limits to the size and scope of operations that cooperatives can undertake*, add additional insight into the issue of growth and expansion. Question 37 hits the concept of diseconomies of scale head-on. It seeks from respondents some evaluation of placing limits on cooperatives' size.

In question 36, there was moderate agreement regarding the issue of continuous expansion. In question 37, there was strong disagreement with the suggestion that growth had no limits. These results were uniform across the board suggesting that producers are concerned with growth and expansion and the costs involved, and see limits to expansion.

Producers' concern with expansion is further amplified by question 42, *I expect to increase my farming operation in the near future*. This question is intended to get a sense of how the respondents feel about increasing farming operations and whether they will. This question is coupled with question 43, *A cooperative should make it easier for a producer to expand production*, which is directed at how easy or difficult a cooperative should make conditions for a producer to increase production. This latter question also gets at how producers perceive the role of a cooperative in providing discipline in controlling supply. Reaction to both questions was neutral to overall disagreement indicating producers' own reluctance to expand their individual operations.

Management and Boards

Closer supervision of management was ranked at or near the bottom in terms of priorities for boards of directors. Interestingly, the ranking by the nonmembers suggested a greater suspicion of management. They ranked it third in order of priority needing attention by the board. Again, this reasoning may suggest that a suspicion of management is one reason producers choose not to join cooperatives. This observation is reinforced by question 45, *Cooperative's management is working effectively on behalf of its members*, which is intended to provide a sense of how effective producers feel cooperative managers are in carrying out their responsibilities.

particularly those which affect members. Those cooperative members who participated in the survey were asked what they thought about their management's performance. Cooperative producers had a moderately strong support for this statement while nonmembers were more inclined to disagree with the statement. Hence, nonmembers see closer supervision of management as an issue more than cooperative members.

In assessing the representation of producer interests by boards of directors, question 46, *A cooperative's board of directors adequately represents a member's interests in managing the cooperative*, provides moderately strong support by the respondents. (The question was not asked of nonmembers). This question gets at an assessment of how producers feel about the responsibility of boards of directors in representing their interests. Since producers elect members of boards of directors, it is an assessment of their elected representatives. However, the board was ranked slightly below that of management in meeting producer concerns.

Question 47, *The board of directors is dominated by large growers, medium growers, small growers, management, or other*, is intended to determine if producers feel that members of boards of directors are dominated by one group over another. The management option was put in the question to get at the concern expressed by some producers that some boards are dominated by management, thus violating the principle of board independence.

Most respondents felt that *large growers* are the dominant force followed by *management, medium sized growers*, and lastly, by *small growers*. This overall ranking was also shared by the nonmembers. The ranking by the bargaining associations was a toss-up between *large and medium sized growers* followed by *management*.

Cooperative Priorities

One of the strongest areas of agreement regarding cooperative priorities related to education. This area is one of the original principles on which cooperatives were originally formed. The response to question 17, *Both cooperative members and nonmembers need education regarding cooperatives' goals, operations, and performance*, received strong agreement and was uniform among all groups of producers. Only four areas received stronger agreement: the issue of having a home for production, role of bargaining associations providing stability, impact of environmental regulation, and cooperative leadership. The conclusion drawn from this response is that cooperatives need to strengthen their programs in providing education to producers. In many cooperatives, the educational function has taken a back seat to other functions such as political activity. However, with cooperatives competing in a highly and rapidly changing environment, producer education takes on a highly important priority.

Question 51 asked respondents to Rank the priority cooperatives should give to a) increasing the sales volume of a producer's commodity, b) increasing the returns for a producer's commodity, c) being competitive with other firms in a producer's commodity's industry, d) lowering operating and processing costs, e) investing more in marketing activities and programs, f) borrowing more credit for expansion, and g) other. The choices given are not necessarily all inclusive, hence respondents were given a choice of other. The first four choices are directly measurable in terms of performance while the last two imply increased performance. Overall, the goal ranked first was to increase the returns producers receive for their commodities. This priority was followed by lowering operating and processing costs and being competitive with other companies in the industry. The fourth and fifth ranked priorities were increasing the sales volume for producers' commodities and investing more in marketing activities and programs. The ranking of marketing activities and programs at the bottom is not surprising given producers' preoccupation with relating competitiveness to low cost enterprises. However, if market expansion is needed, cooperatives must provide the necessary education to assure its market investment. Nonmember responses were similar to those of cooperative members.

Similar questions were asked of the bargaining associations but with a format more suited to their activities. The following question was asked of bargaining association members: Rank the priority bargaining associations should give to a) Expanding markets through advertising and promotion, b) Maintaining a home for members' production, c) Reducing producer costs through increased research, d) Bargaining for the highest price, e) Stabilizing price fluctuations, f) Looking at the future of the industry, g) Providing leadership for the industry, h) Investing more in marketing programs and activities, i) Expanding services, and j) Other. The results of the ranking of these alternatives by the respondents placed stabilizing price fluctuations as the highest priority followed by bargaining for the highest price, and looking at the future of the industry among the top three. The next three were expanding markets through advertising and promotion, maintaining a home for members' production, and reducing producer costs through increased research. It is interesting to note that market expansion receives a higher ranking than reduction costs. Not all three bargaining associations were in agreement on the ranking, particularly among the top three. This variance is explained by the different production and marketing situations surrounding the three industries involved with the bargaining associations.

Unanimous, however, was the bottom ranking of expanding services which is also supported and reinforced by the negative response to question 48, *Cooperatives should provide more services*. This question is intended to determine if cooperatives should provide more services to its members. An agreement with this statement implies that any additional services could be provided by the cooperative at a lower cost and require additional financial support. However, the negative response does not necessarily mean that

more services are not desired; the producer may be able to obtain them in a competitive market at a lower cost than the cooperative may offer.

There were a number of related questions to the ranking of cooperative priorities. In relation to price, question 31, *By securing the highest price for a producer's product, a cooperative will assure that the best possible return is achieved*, is directed at the principle that highest possible prices will achieve best returns. It ignores the other methods of securing better returns such as market expansion, controlling costs, or carrying less burdensome inventories. The question was given positive support.

Another question, 27, *Bargaining cooperatives should always bargain for the highest price without regard for long term consequences*, was not supported. A controversy exists over whether bargaining cooperatives should always attempt to secure the highest price possible each year without attempting to address oversupply problems that such prices might bring about in the future. This question addresses that conflict. The conclusion to producers' response to this question is that they recognize the importance of securing the best possible price, but also recognize it doesn't come without consequences.

Question 38, *To compete more effectively, cooperatives must become more international in scope*, addresses whether producers recognize if they, and, in turn, the firms (including cooperatives) are in global markets. It also seeks to evaluate their understanding of whether they agree or disagree with plans cooperatives undertake to compete internationally. Respondents agreed with this question recognizing that cooperatives are competing against firms that are international in scope, and need to respond accordingly.

With respect to quality considerations, respondents agreed with question 40, *High quality standards are essential to a cooperative's financial performance, even if they increase producers' costs*. This question is an acknowledgment of a number of cooperatives' efforts to increase quality through stricter standards for the raw material that is received. It also evaluates producers' understanding of the role of quality in cost efficiency, and in developing products that command a premium in the marketplace. The issue of quality is important to California cooperatives, particularly from the standpoint of rewarding good producers and penalizing bad producers. The response is particularly important from the standpoint that producers also recognize their own costs will increase but feel the benefits from an improved competitive situation will offset those costs.

Credit and Risk

Four questions were asked that related to credit and risk. Question 21, *Cooperatives should depend more on credit than on members' equity in*

financing their operations, had disagreement. Similarly, question 34, *Cooperatives should not undertake projects that have a high degree of risk, irrespective of potential benefits*, had moderate agreement. Respondents were neutral on the questions 22, *The amount of credit that a cooperative borrows has no relationship to a member's financial situation*, and 35, *A producer's financial resources are better spent in the farming operation than in providing equity for the cooperative*. The questions were posed to look at a number of issues. Question 21 raises the issue of how much cooperatives should rely on credit, and how much equity members should contribute. It also addresses the issue of how much risk producers are willing to take. Question 22 looks at the issue of how related are the cooperative's and individual members' financial situation. Can members ignore a cooperative's credit situation from the standpoint of it being separate from their own? In asking this question, there is a presumption that members will realize that a cooperative's decisions regarding credit will have impact on their own situation by how successful the cooperative is in utilizing that credit. Question 34 seeks to evaluate a respondent's evaluation of the role of risk in a cooperative's strategy, and how risk averse a cooperative should be in a capitalistic economy where rewards are reflective of the amount of risk taken. With limited capital resources, question 35's intent is to ascertain what producers feel the priority should be between their need for capital and the cooperative's need.

The conclusion to be drawn from the responses to questions 21, 22, 34, and 35 is that producers are more than aware of risk, the need for equity financing for cooperatives, and the need to reduce overall exposure to risk by not depending too much on credit or undertaking high risk projects.

Membership Issues

A number of questions related to the direction cooperatives should take regarding member and nonmember production and expansion into new products. Weak agreement was given to question 12, *Cooperatives should have open membership*. This statement seeks to determine whether cooperatives should leave their membership opened or closed. There is some debate among producers about controlling supply by limiting membership in cooperatives. While membership in most cooperatives has been open, some groups feel that by closing membership, industry oversupply can be addressed more effectively, and the probability of sustained profit levels can be enhanced.

Moderate agreement was given on question 14, *Members of a marketing cooperative should deliver all of their production to it*. This principle reflects loyalty to the cooperative, but also the need for the cooperative to secure adequate supplies to cover their capital costs. Generally, most cooperatives require delivery of all of a producer's raw product. Some cooperatives have structured themselves for deliveries under both membership agreements and cash contracts in order to compete with

non-cooperative entities. Producers have sought other outlets besides the cooperative in order to compare returns and hedge their relative risk in marketing.

However, on question 16, there was weak disagreement on the statement *Cooperatives should not accept nonmember business*. Some cooperatives accept nonmember business in order to provide volumes that their members cannot provide. Other cooperatives have set up arrangements to purchase nonmember production in order to be competitive with other firms in the industry in securing raw product, and maintaining or increasing market share. Objections to these arrangements varies but encompasses rationale that includes *providing a home for production that otherwise would not have one and thus increases unwanted supplies in the industry*, and *all producers participating in the cooperative should have the same obligations and loyalty*. There was also weak disagreement on question 39, *To compete more effectively, cooperatives must look to expand into products beyond their members' base production*. This question is related to question 28, *Successful cooperatives are ones that organize around single and related commodities rather than multiple ones*, which received moderate to neutral support. Question 28 addresses the issue of how extensive a cooperative's operations should become. In many cases, cooperatives are competing against firms that are multi-commodity in nature. However, their best advantage lies in areas and commodities that they know best. Question 39 seeks an evaluation from respondents on whether cooperatives have any business developing markets beyond what their members produce. The question assumes an understanding that such an expansion is done to enhance a cooperative's competitiveness with other firms who have similar strategies.

Taken collectively, the responses to questions 14, 16, 28, and 39 indicate that members take seriously their contract to the cooperative, but there is some indication that they would like to keep their options open as far as deliveries. Further, members recognize the importance that nonmember production can have on their operations and feel that some flexibility should be maintained. However, there is caution about expanding the cooperative beyond the production expertise that already exists as far as new products are concerned. This conclusion is reinforced by previous discussion on related matters.

A final issue under this section is question 29, *Cooperatives should limit members' deliveries to adjust to declining or uncertain markets*, which is directed at producers' concern about matching supplies with demand and avoiding carrying burdensome inventories. Normally, a cooperative accepts all that a producer delivers. The question of limiting members' deliveries is a sensitive one in that it would mean adjustments in their acreage, or the burden of unsold tonnage. Response to this question was overall neutral to weak disagreement. This question is important from the standpoint of the role cooperatives should take if production adjustments need to be made. Should the cooperative take an active role in them or leave them to market

forces and competition? The response indicates producers are ambivalent about this issue posing an educational challenge to cooperatives in their development of strategies relating to it.

Financial Performance

With respect to financial performance of cooperatives affecting members, four questions, 18, 19, 20, and 33, are pertinent. Question 18 stated *Retains are considered a "cost of doing business" in a cooperative with no interest to be received.* Retains provide equity to the cooperative in order for it to operate. These retains are taken from producers' annual returns and "revolved" at some future date. Some producers have looked at this contribution as an investment much as any investment vehicle which normally draws interest. At issue is the basic fundamental of how cooperatives finance themselves and producer expectations of returns. Question 19 stated *Cooperatives should be operated on a "non-profit" basis.* This principle reflects that all revenues minus expenses and retains should be returned to members. Some cooperatives do have profit making subsidiaries which enhance the overall returns to members. Question 20 stated *Final returns appropriately reflect revenues above cost and a total return on members' equity.* This principle is related to the one in question 18. Producers' contributions in the form of retains is their contribution to financing the cooperative. Their patronage determines the amount contributed as well as the amount returned which includes profits on the cooperative's business. Finally, question 33 stated *Patronage dividends are an important factor in evaluating a cooperative's performance.* This question assumes that a producer knows what patronage dividends are. It seeks to get an evaluation of comparing prices received in an industry from various firms based on a total return concept, which in the case of cooperatives means that patronage dividends need to be taken into account.

The first, 19, received moderate agreement to the statement *Cooperatives should be operated on a non-profit basis.* In fact, the nonmember responses showed an even stronger agreement than cooperative member. The second question, 20, received stronger agreement than 18 with nonmembers showing even stronger agreement with the statement. Question 33 received moderate agreement across all groups. These three statements taken collectively show that producers understand the idea of patronage dividends in the operation of cooperatives. However, question 18 received weak agreement across all cooperative groups with nonmembers being neutral in their response. This latter response is consistent with the ranking of disadvantages of being a member in a cooperative, particularly among nonmembers, and also indicates that not all cooperative principles are either understood or necessarily supported when comparing cooperatives to other financial alternatives available, particularly with respect to retains.

In a related issue to patronage, while producers feel that members of marketing cooperatives should deliver all of their production to them, they also feel that with supply cooperatives, the same principle doesn't apply. There was disagreement with question 15, *Members of a supply cooperative should purchase all of their supplies from it.* This principle is similar to the one in question 14 which received moderate agreement. There are few supply cooperatives in California, and the ones that do exist generally don't supply all of the resources necessary for production. Production expenses is one area that producers have to directly control total expenses.

Voting

Voting is usually not tied to patronage. There was moderate agreement with question 13, *Voting in cooperatives should be on the basis of one person, one vote.* Most cooperatives follow this principle which follows the democratic principle of one person, one vote. Patronage is based on the volume delivered or purchased from the cooperative, and some producers feel disadvantaged in a cooperative because their contribution in patronage isn't appropriately reflected in their voting rights. Nonmembers tended to show less agreement with this concept than cooperative members. The response shows this question to be a "non-issue."

Legislative and Government Relations

Increasingly, cooperatives and their members are affected by governmental policy and regulation forcing them to seek ways to both protect and promote their interests. As an indication of the impact of increasing regulation, response to question 41, *Cooperatives and their members will increasingly be affected by environmental regulations.* This question is intended to evaluate how the respondents feel about the direction of environmental regulation and its impact, and it had the strongest agreement of any statement in the survey. While the response to question 38, *To compete more effectively, cooperatives must become more international in scope,* was not as strong, it also indicated a feeling among producers that this arena also deserves increased attention. The question addressed whether producers recognize if they, and in turn, the firms (including cooperatives), are in global markets influenced by international markets. It also sought to evaluate their understanding of whether they agree or disagree with plans cooperatives undertake to compete internationally. Since participation in international markets is affected by governmental policies, cooperatives will need to look at activities in this area.

Questions 56, 57, and 58 asked for responses on laws particularly affecting cooperatives. Question 56, *The Capper-Volstead Act provides important protection for cooperatives that must be preserved,* is perceived to be the cornerstone of cooperatives in the United States, and is posed to

elicit how strongly the respondents agree with the statement and the preservation of the act. Question 57, *Cooperatives need to maintain their tax exempt status to be competitive*, seeks an evaluation of the importance of this status in legislative priorities. The tax exempt status is perceived by non-cooperative forms of business as a significant advantage for cooperatives. Question 58, *Marketing orders are essential to an effective marketing program in cooperatives*, seeks to establish an opinion regarding the importance of marketing orders. Marketing orders are used extensively for many commodities in California. Many are outgrowths of programs that were initiated by cooperatives. Increasingly, many provisions of marketing orders, particularly those related to supply control, are coming under heavy criticism both from within and outside of a particular industry.

The response among cooperative members to questions 56 (Capper-Volstead Act protection), 57 (tax exempt status), and 58 (marketing orders) was agreement that the programs in question should be maintained. Marketing orders, in particular, have been important to cooperatives in achieving certain objectives for their members. While nonmembers did not feel as strongly as cooperative members, the difference was not as significant regarding these three areas.

On the question of federal farm support programs, 59, *Federal government farm support programs are important to the success of farming in California*, overall, there was neutral to weak disagreement over the importance of them to farming in California. While farm programs account for less than two percent of gross farm income in California, they impact nearly two-thirds of crop acreage and the dairy and livestock industries, which are the two leading commodities. This question seeks to determine if there is an understanding of this relationship, and how much support exists for farm programs. Since most of California agriculture is not directly affected by such programs, this result is not surprising. Among the two cooperatives whose members are directly affected by government programs (Butte County Rice Growers and Calcot), the response to the question of importance of federal farm programs was one of agreement. Hence, the response among the other cooperative members was an even stronger disagreement than the overall rating.

Organizations

Several questions dealt with how legislative concerns should be addressed. From question 61, *On state issues, cooperative members' interests are best served by the cooperative joining with other cooperatives in an organization like the Agricultural Council of California*, and question 62, *On national issues, cooperative members' interests are best served by the cooperative participating in the National Council of Farm Cooperatives to represent them*, the response indicates general support for membership in the organizations identified. The former represents cooperatives at the state level and the latter at the national level. One hypothesis that is being

tested with this question is if producers know about the Agricultural Council and National Council of Farm Cooperatives, and if they support the idea of a cooperative being a member. Another hypothesis being tested is if producers believe that they are being served through a community of interests approach.

There is also support for producers being represented by individual commodity organizations as indicated by the response to question 63, *A producer's interests are better served in state and national legislation by membership in an organization of commodity growers.* Unlike the previous two questions, this question looks at commodity interests rather than cooperative interests which may be broader based. It gets at the question of how producers look at pooling community of interests across commodity lines.

Finally, there is recognition of the need for Political Action Committees (PACs) supported by producer contributions as evidenced by the response to question 64, *Representation through a Political Action Committee (PAC) supported by producer contributions is increasingly necessary to assure protection of a producer's political interests.* PACs are increasing in number and the amounts of money raised. While they are perceived as something that should not be necessary, agricultural groups have raised significant amounts of money to both protect and advance their self interests through political action. However, the degree of support is moderate, and somewhat less so for the concept of cooperatives forming their own PAC as stated in question 65, *It is appropriate for a cooperative to form a PAC to promote its interests.* The conclusion is that producers feel legislative and government relations are necessary and they are willing to support activities monetarily, but have some misgivings about the concept of PACs.

Priority Issues

Question 66 asked producers to *Rank the following issues involving future legislative and government attention: a) pesticide regulations, b) water use regulations, c) water quality regulations, d) land use regulations, e) air quality regulations, f) waste disposal regulations, g) farm labor regulations, h) trade policy and regulations, i) farm program legislation, j) treatment of farms under tax laws, and k) other.* This question lists ten issues that have been independently identified at one time or another as important to California agriculture and seeks an order of priority regarding needed attention in the legislative and government arena. It should serve as a guide to what producers consider to be their most important issues requiring legislative and governmental attention on the part of their representative organizations.

Overall, for all respondents from the cooperatives, *pesticide regulations* was ranked as the top priority. This issue was followed closely

by *water use regulations*, which no doubt was a reflection of the continuing drought in California. Third and fourth ranked issues were *water quality regulations* and *trade policy and regulations*, respectively. Fifth and sixth priorities were *land use regulations* and *air quality regulations*. Seventh, eighth, and ninth were *farm labor*, *waste disposal*, and *treatment under tax laws*, respectively. Last in terms of priority was *farm program legislation*, which was ranked tenth uniformly by all groups, thus correlating with other questions in this study.

Members of bargaining cooperatives had a significantly different ranking of issues. They ranked *water use* first, and *pesticides* second; however, again the difference was not much. Either could have been first or second much as in the overall results. The significant difference comes in the next five rankings of priorities where they rank *trade* third, *farm labor* fourth, *water quality* fifth, *land use* sixth, and *air quality* seventh. The real difference is moving the *farm labor* issue up to fourth. This difference is probably a reflection of the crops the bargaining associations represent, which are more labor intensive than some of the other cooperatives commodities in the survey. Nonmember responses followed the overall results with the notable exception of *trade* which was ranked third after *pesticides* and *water use*.

The results of these rankings are not surprising given that California agriculture faces high risk of losing pesticide registrations and increasing amounts of water to an increasing urban society concerned with environmental protection. In addition, with an ever increasing amount of exports, California agriculture is becoming more reliant on outcomes of trade policy negotiations. These issues are receiving increased amounts of attention and monies funneled into various lobbying efforts in an attempt to secure positions favorable to agriculture.

Communications

Question 67, while in the legislative and government relations section, deals with the image of cooperatives among various groups. It asks to *Indicate cooperatives' image among the following: a) individual cooperative's membership, b) other producers not members of a cooperative in a given commodity, c) among other cooperatives, d) consumers, e) government, and f) the media (newspapers, magazines, radio, TV, etc.), and give a grade from A (highest) to F (lowest) or E which denotes a Don't Know category.* The question is intended to determine areas where cooperatives' image is favorable and not favorable. The ratings are purely subjective.

The ratings among the various categories are not surprising. A good rating (3.23 out of a possible 4.0 numerical score) was given to cooperatives' image among their own members, and a much lower rating (2.28) was given to their image among producers who aren't members. The remainder on the ratings among consumers (3.17), government (2.89), and the media

(2.71) tended to center around a "good" rating. Nonmembers tended to rate cooperatives' image among the various groups substantially lower than members, which again is not surprising.

Question 68, *How well does the cooperative communicate on a) production issues, b) marketing issues, c) trade issues, d) economic issues, e) internal cooperative affairs, f) environmental issues, g) health and safety issues, and h) political issues*, related to how well cooperatives communicate on the issues identified. Respondents were asked to place a grade of A to F for each one of the listed issues with E reserved for the category *Doesn't Matter*. Producers commonly receive information and education from a variety of sources on those issues. The purpose of the question is to determine how well cooperatives perform in meeting producer needs relative to each issue. It is not the question's purpose to determine if producers need the information or education.

Higher grades were given in the production (3.11) and marketing (3.03) issue area; lower grades were given in the other areas. In the area of internal cooperative affairs, bargaining associations seemed to be doing a better job than the other cooperatives in that the ratings were as good as production and marketing. These ratings point to some areas where cooperatives may want to consider improved information programs, particularly in the area of internal cooperative affairs. For example, among nonmembers, this area was given a below average rating (1.44). If, in particular, cooperatives are concerned with an improved understanding of themselves, what is being suggested here is to open the doors wider to permit both members and nonmembers alike an improved understanding of what goes on within cooperative board and management decisions.

Question 69, *Producers receive information affecting production and marketing decisions from the following sources: a) a producer's cooperative's field representative, b) farm suppliers, c) lenders/bankers, d) farm advisors, e) university, f) private consultants, g) industry publications, h) general farm publications, i) newspapers, and j) the local coffee shop*, and asked respondents to rank the sources identified from most important (1) to least important (9). Each of the sources was identified as among the universe of those commonly identified by producers that they use to secure information. The last source, *local coffee shop*, was listed as a legitimate source inasmuch as many producers frequent such places and some have stated that they provide the best source of information. The purpose of this question is to provide to cooperatives a priority listing of sources that can be used to provide information to the producer community. It should be noted that while most of the cooperatives in the survey had "field representatives" of varying titles, not all did, which could increase the variability of the ranking of that category. The following ranking of sources was identified:

1. Industry publications (numerical score = 3.44)
2. A cooperative's field representative (3.88)
3. Farm Advisors (4.42)
4. General Farm Publications (4.52)
5. Farm Suppliers (5.49)
6. University (5.67)
7. Newspapers (5.80)
8. Private Consultants (6.25)
9. Lenders/Bankers (7.41)
10. The Local Coffee Shop (7.69)

The ranking of the list is not surprising with the exception of the ranking of the local coffee shop. It is not uncommon for producers to visit certain coffee shops in their areas to catch up on the latest news regarding what is going on in their industry. However, it is refreshing to note a more organized and verifiable approach to decision making by producers.

The first four sources are particularly noteworthy. Usually each industry has a publication that is widely read by producers and others. In fact, some cooperatives either sponsor such a publication or take an active role in the one used by an industry. Not all cooperatives have a field representative in so many words, but have an identified contact with their producers. These people can be instrumental in educational and informational efforts. Farm Advisors are a key position for California agriculture. Many have commodity field days to bring the latest information to the producer community and have newsletters. They too can be instrumental in educational and informational programs. Fourth on the list are the general farm publications. There are at least three that provide information to California producers on a regular basis. Collectively, these sources of information are ones that the cooperatives can work with directly in order to assure appropriate information is given to both members and nonmembers about cooperatives.

Question 70, *The most effective way for cooperatives to communicate with a producer is through: a) annual meetings, b) field representatives, c) regional grower meetings, d) a cooperative's publications, e) letters/newsletters, or f) commodity related industry publications*, seeks to identify appropriate ways for cooperatives to communicate with producers. Each respondent was asked to rank the communication methods from highest (1) to lowest (6) in preference. This question seeks to elicit from the respondents not only sources of communication, but priorities. The methods listed are not all inclusive but cover most major categories of communications producers receive likely to have news regarding cooperatives. Some other methods were listed for individual cooperatives such as "grower liaison committee members" but were dropped from the overall survey results since not all cooperatives had such mechanisms. The following ranking was identified:

1. Letter/newsletters (numerical score = 2.30)
2. A cooperative's publications (2.62)
3. Regional grower meetings (2.74)
4. Field representatives (2.94)
5. Industry publications (4.44)
6. Annual meetings (4.67)

There was slight variation among bargaining association producers, but not significant. The ranking should not be surprising given reflection and analysis. Some are concerned about the low ranking of annual meetings suggesting that they are not valuable. On the contrary, this survey is not suggesting that annual meetings are not valuable. What is being suggested by this ranking is that producers want frequent and periodic communication from the cooperative on issues that concern them. Annual meetings don't meet this criteria, but should still be held. They should be used to bring together their membership and others to summarize the year's achievements, and give members an opportunity to participate in the cooperative's business and interact with their elected board and appointed management.

With respect to nonmembers, the survey indicated the best way to communicate with them is by letters and newsletters, industry publications, and regional meetings. Given that most nonmembers do not have the same array of resources available to them to obtain information, this ranking is within expectations. It also suggests ways that cooperatives can communicate with nonmembers on cooperative issues.

Overall Evaluation

The last question on the survey dealt with an overall evaluation of cooperatives by their members who were asked to rate them on a scale of A to F. The overall rating fits within the rating in question 68. Cooperative members gave their cooperatives a good rating (3.17 out of 4.0 possible) on overall performance in meeting the needs of producers. Nonmembers gave a considerably lower rating.

CONCLUSIONS

This report has been concerned with why producers become members of a cooperative or remain independent, and producer expectations with respect to goals, strategies, and performance. While cooperatives must be competitive in producing and marketing their products, they must also be competitive in securing acceptance by producers in order to maintain their equity and patronage base. Hence, in a cooperative, producer membership issues are equally as important as

business issues. Issues relevant to producers' interests and expectations regarding cooperatives affect their ultimate desires to participate.

In addressing producer concerns, it should first be noted that among those cooperative members responding to the survey used in this report, there is strong support for cooperatives. Beyond this support, two themes emerge regarding producer expectations of cooperatives. First, producers expect cooperatives to provide leadership within their industry and on governmental activities, and, second, they expect cooperatives to provide needed educational programs. In carrying out their responsibilities in these two areas, the study identified a number of key issues that deserve attention, and which present both limitations and opportunities. These include the following:

- ◆ Producers join cooperatives because of an expectation of consistent and competitive returns. Throughout the survey, producer response centered on the capability of cooperatives to enhance their returns. While this objective can be achieved in a number of ways, it is important that cooperatives thoroughly explain their relative performance to key comparisons within their industry and how it is related to specific directions they must take to remain competitive.

- ◆ Producers see the main drawbacks of a cooperative as the financial aspects of lateness of final payments, and the amount of money tied up in retains. Since these factors are key to a cooperative's operation, communication and education by cooperatives to its members is necessary to promote better understanding on why certain actions and decisions are taken with respect to these two variables.

- ◆ While producers generally understand the concepts used to finance cooperatives and the role that patronage dividends play, there are some areas where producers have concerns. In many cases, retains and patronage dividends (as compared to cash payments on receipt of raw product) are viewed as a necessary evil for cooperative membership. As cooperatives compete with other forms of business enterprise, producers need a basis of comparison in order to make their production and marketing decisions, particularly how the total return received from a cooperative compares with other investment vehicles.

- ◆ Producers have a favorable view of bargaining associations and the role they can play in promoting stability in an industry. Bargaining associations provide needed marketing representation and other services to its producer members. Among these is the increased flow of information about the industry and representation of single commodity issues to government. Bargaining associations are likely to play a larger role within various agricultural industries in California.

◆ Producers recognize the need for cooperatives to compete successfully internationally. They see the primary way to be competitive internationally is to be cost efficient and they will make the necessary investment to accomplish this goal. However, when it comes to investing in increased marketing activities or expansion to meet new marketing opportunities, there is significant hesitancy to embrace these efforts. As cooperatives find it necessary to expand beyond their traditional focus, they will have to undertake educational efforts to bring their membership along.

◆ Producers have indicated concern over contemplated changes in cooperatives' structure and operations in order to become more flexible in meeting competition in both its traditional markets as well as in developing new ones. One issue is the treatment of nonmember production in expansion of markets, as well as expansion of products beyond members' production base. While limiting a cooperative's market to a single commodity, or related commodities, and only marketing member products may be an acceptable alternative, other alternatives may have to be considered in order to meet competition. When considering these alternatives, cooperatives need to educate their members as well as nonmembers on the consequences of pursuing them as well as not pursuing them.

◆ Internal affairs within a cooperative need attention. Internal affairs are those decisions relating to the internal workings of the cooperative such as elections, management changes, policy development, leadership appointments, etc. While it can be argued that such affairs are only the business of the cooperative and its board of directors, producers are concerned about how decisions are made and appreciate background information on various issues. By doing so, cooperatives will not only eliminate dangerous rumors, but will also encourage producers to take an increased interest in their affairs.

◆ Producers expect leadership in governmental relations from cooperatives. Top issues concerning producers are water, pesticides, trade, and labor. There are a variety of ways that cooperatives can become involved in these and other issues. As they become involved, cooperatives need to distinguish between those issues they can undertake and those issues that can best be dealt with by other producer-oriented organizations. What is important is that cooperatives are in touch with their membership on which issues are important and which issues their members want them to support. This point involves not only getting their members' reaction to various issues that might emerge, but also educating them, as well as other producers, on potential impacts of governmental policy and regulation, and the potential impacts of alternative solutions. The use of Political Action Committees may be a necessary evil in the U.S. political system but can also be an important mechanism for representing producer interests.

◆ Producers see the keys to success in cooperative performance as effective management and a knowledgeable board of directors. They see the responsibilities of board members less in close supervision of management and more in providing long range planning and leadership development within the organization.

In order to meet producers' expectations regarding performance, leadership, education, and information to make improved choices and decisions, a number of alternatives are suggested for consideration by cooperatives.

1. Regular newsletters and communications. There are many outstanding examples of cooperative newsletters and other communications. These communications should deal with issues that have been identified as concerns of producers and they should be made on a frequent basis. These newsletters can also be directed towards nonmembers, particularly on issues that affect all producers on an industry-wide basis. The intent should be to inform and educate producers on issues affecting them, as well as the rationale underlying actions and decisions made by cooperatives.

2. Grower oriented publications. Many cooperatives have formal publications that provide articles and commentary on production and marketing. These articles are, in many cases, written by experts in various fields and provide producers with background and insight into issues and problems. Some of these articles can be expanded into providing additional insights into cooperative issues.

3. Grower contact system. Many cooperatives have organized programs for regular contact with producers, both members of cooperatives and nonmembers. Some have organized field departments while others have organized producer relations organizations and committees. There are many variations utilizing a combination of concepts. These programs provide direct contact with producers as well as allow producer access to management. These programs should be coupled with training directed towards cooperative performance, priorities, and other issues affecting producers.

4. Leadership development program. Cooperatives should consider the establishment of a leadership development program under the sponsorship of the board of directors. This program would have as its objectives the continuous development of leadership potential, assistance of cooperative educational efforts, and the laying of groundwork for improved understanding of cooperatives. Such a program would involve the early identification of leadership potential among a cooperative's membership, provision of leadership roles, and related training and education.

5. Young member programs. These programs would include orientation into the cooperative and continuing education regarding its operations. The programs should include spouses and should center on how the member can become more knowledgeable about the cooperative and the industry in which it operates, as well as how the member can become more actively involved in its activities and leadership opportunities.

6. New member orientation. This program can tie into the young member programs, but would concentrate on providing a solid base for all new members to understand the cooperative's philosophy and direction.

7. Management and director training. A planned program of management and director education should be planned and undertaken. The University of California Center for Cooperatives can be an integral part of this training. Director workshops in the past have been poorly attended. Cooperatives should undertake a commitment to these workshops, and not only participate in them, but assist in planning them as well to assure that the issues addressed are of significance to cooperatives.

While the above list is not all inclusive, it does address the establishment and continuing commitment to the education of producers, both its members and nonmembers, and the enhancement of its leadership capabilities. The first step in any educational program is commitment by its leaders, and then the implementation of programs designed to enhance its knowledge base. Most cooperatives have the necessary ingredients for successful educational programs to improve producers' knowledge about cooperatives. Others can learn from successful examples already in place. There are numerous sources of information that cooperatives can draw upon for implementing educational programs both from within the cooperative establishment and universities. The final step is to continue to learn from efforts that have been implemented and institute improvements. This study has drawn on an analysis of producer perceptions about cooperatives in order to provide guidance and suggestions on improving producers' knowledge and the capacity for leadership. The findings and recommendations are intended to assist cooperatives in assessing their educational and leadership needs and establishing programs to meet them.

Appendix A: Survey of Cooperative Members

Cooperative Principles. Please indicate your agreement with the following statements by circling the appropriate number (1=strong agreement; 2=agreement; 3=neutral; 4=disagreement; 5=strong disagreement; 6=don't know)

- | | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 12. Cooperatives should have open membership. | 1 | 2 | 3 | 4 | 5 | 6 |
| 13. Voting in cooperatives should be on the basis of "one person, one vote." | 1 | 2 | 3 | 4 | 5 | 6 |
| 14. Members of a marketing cooperative should deliver all of their production to it. | 1 | 2 | 3 | 4 | 5 | 6 |
| 15. Members of a supply cooperative should purchase all of their supplies from it. | 1 | 2 | 3 | 4 | 5 | 6 |
| 16. Cooperatives should not accept "non-member" business. | 1 | 2 | 3 | 4 | 5 | 6 |
| 17. Both cooperative members and non-members need education regarding cooperatives' goals, operations, and performance. | 1 | 2 | 3 | 4 | 5 | 6 |
| 18. Retains are considered a "cost of doing business" in a cooperative, with no interest to be received. | 1 | 2 | 3 | 4 | 5 | 6 |
| 19. Cooperatives should be operated on a "non-profit" basis. | 1 | 2 | 3 | 4 | 5 | 6 |
| 20. Final returns appropriately reflect revenues above cost and a total return on members' equity. | 1 | 2 | 3 | 4 | 5 | 6 |
| 21. Cooperatives should depend more on credit than on members' equity in financing their operations. | 1 | 2 | 3 | 4 | 5 | 6 |
| 22. The amount of credit that a cooperative borrows has no relationship to a member's financial situation. | 1 | 2 | 3 | 4 | 5 | 6 |
| 23. A cooperative should be the leader in every aspect in its industry. | 1 | 2 | 3 | 4 | 5 | 6 |
| 24. Cooperatives provide an essential alternative for both members and non-members. | 1 | 2 | 3 | 4 | 5 | 6 |
| 25. Cooperatives are worthwhile even if non-members, who don't financially support them, receive some benefits. | 1 | 2 | 3 | 4 | 5 | 6 |
| 26. The presence of a "bargaining association" or cooperative in an industry provides stability. | 1 | 2 | 3 | 4 | 5 | 6 |
| 27. Bargaining cooperatives should always bargain for the highest price without regard for long term consequences. | 1 | 2 | 3 | 4 | 5 | 6 |
| 28. Successful cooperatives are ones that organize around single and related commodities rather than multiple ones. | 1 | 2 | 3 | 4 | 5 | 6 |

Goals and Performance.

- | | | | | | | |
|---|---|---|---|---|---|---|
| 29. My cooperative should limit members' deliveries to adjust to declining or uncertain markets. | 1 | 2 | 3 | 4 | 5 | 6 |
| 30. Having a home for my production is important. | 1 | 2 | 3 | 4 | 5 | 6 |
| 31. By securing the highest price for my product, my cooperative will assure that I receive the best possible return. | 1 | 2 | 3 | 4 | 5 | 6 |

Appendix A: Survey of Cooperative Members

32. A bargaining cooperative would provide increased stability to my commodity industry.	1	2	3	4	5	6
33. Patronage dividends are an important factor in evaluating a cooperative's performance.	1	2	3	4	5	6
34. My cooperative should not undertake projects that have a high degree of risk, irrespective of potential benefits.	1	2	3	4	5	6
35. My financial resources are better spent in my farming operation than in providing equity for my cooperative.	1	2	3	4	5	6
36. My cooperative's members benefit from a continuous expansion of its business.	1	2	3	4	5	6
37. There are no limits to the size and scope of operations that my cooperative can undertake.	1	2	3	4	5	6
38. To compete more effectively, cooperatives must become more international in scope.	1	2	3	4	5	6
39. To compete more effectively, cooperatives must look to expand into products beyond their members' base production.	1	2	3	4	5	6
40. High quality standards are essential to my cooperative's financial performance, even if they increase producers' costs.	1	2	3	4	5	6
41. My cooperative and its members will increasingly be affected by environmental regulations.	1	2	3	4	5	6
42. I expect to increase my farming operation in the near future.	1	2	3	4	5	6
43. My cooperative should make it easier to expand my production.	1	2	3	4	5	6
44. Managing a cooperative is unique and must be evaluated differently from non-cooperative forms of business.	1	2	3	4	5	6
45. My cooperative's management is working effectively on my behalf in the cooperative.	1	2	3	4	5	6
46. The board of directors in my cooperative adequately represents my interests in managing the cooperative.	1	2	3	4	5	6
47. The board of directors is dominated by the interests of:						
Large growers	1	2	3	4	5	6
Medium growers	1	2	3	4	5	6
Small growers	1	2	3	4	5	6
Management	1	2	3	4	5	6
Other _____	1	2	3	4	5	6

Appendix A: Survey of Cooperative Members

48. My cooperative should provide more services. 1 2 3 4 5 6
What services? _____

49. If another company offered to buy my cooperative at a price returning three times the value of my investment, I would sell. 1 2 3 4 5 6

50. If your cooperative did not exist, rank (1=most likely, 2=next most likely, etc.) the following as alternatives:

- _____ Joining or forming another cooperative.
- _____ Selling to a non-cooperative that pays the highest price.
- _____ Selling to a non-cooperative that offers the same services as my cooperative.
- _____ Produce other crops.
- _____ Do my own marketing.
- _____ Exit farming.

51. Rank (1=highest; 2=next highest, etc.) the priority you feel your cooperative should give to the following:

- _____ Increasing the sales volume of your commodity.
- _____ Increasing the returns received for your commodity.
- _____ Being competitive with other companies in your commodity's industry.
- _____ Lowering operating and processing costs.
- _____ Investing more in marketing activities and programs.
- _____ Borrowing more credit for expansion.
- _____ Other _____

52. Rank (1=highest, 2=next highest, etc.) the following as priorities the board of directors should undertake:

- _____ Closer supervision of management.
- _____ Closer control of operating costs.
- _____ Increased responsiveness to member concerns.
- _____ Planning for the future.
- _____ Develop plans for continuous and dynamic leadership in my cooperative.
- _____ Looking for ways to grow.
- _____ Other _____

53. Rank (1=highest; 2=next highest; etc.) the following as attributes important for management to be effective:

- _____ Ability to handle people.
- _____ Properly plan for the efficient use of employees/financial resources.
- _____ Understand and be responsive to members' concerns.
- _____ Plan for the future.
- _____ Ability to work with boards of directors (even difficult ones).
- _____ Meet members and the public equally well.
- _____ Other _____

Appendix A: Survey of Cooperative Members

54. Cooperatives succeed for the following reasons (Please rank as 1=highest; 2=next highest, etc.):

- Sufficient capital.
- Use credit wisely.
- Efficient management.
- Knowledgeable members of boards of directors.
- Adequate business margins.
- Informed membership.
- Balance short run revenue gains with long run sustainability of profits.
- Avoid tying up too much money in fixed assets.
- Avoid overextending credit to members.
- Other _____

55. Please rank the following disadvantages of being a member of a cooperative (from 1=largest disadvantage; 2=next largest, etc.; to 6=least disadvantageous):

- Returns are not as high as in a non-cooperative business.
- Takes too long to receive my final payment.
- Too much money tied up in retains.
- Management dictates to growers.
- My interests aren't represented.
- Other _____

Legislative/Government Relations.

Please indicate your agreement with the following statements by circling the appropriate number (1=strong agreement; 2=agreement; 3=neutral; 4=disagreement; 5=strong disagreement; 6=don't know)

- | | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 56. The Capper-Volstead Act provides important protection for cooperatives that must be preserved. | 1 | 2 | 3 | 4 | 5 | 6 |
| 57. Cooperatives need to maintain their tax exempt status to be competitive. | 1 | 2 | 3 | 4 | 5 | 6 |
| 58. Marketing orders are essential to an effective marketing program in my cooperative. | 1 | 2 | 3 | 4 | 5 | 6 |
| 59. Federal government farm support programs are important to the success of farming in California. | 1 | 2 | 3 | 4 | 5 | 6 |
| 60. It is necessary for my cooperative to provide leadership on issues requiring legislative and government attention. | 1 | 2 | 3 | 4 | 5 | 6 |
| 61. On state issues, my interests are best served by my cooperative joining with other cooperatives in an organization like the Agricultural Council of California to represent me. | 1 | 2 | 3 | 4 | 5 | 6 |
| 62. On national issues, my interests are best served by my cooperative participating in the National Council of Farm Cooperatives to represent me. | 1 | 2 | 3 | 4 | 5 | 6 |

Appendix A: Survey of Cooperative Members

63. My interests are better served in state and national legislation by my membership in an organization of commodity growers. 1 2 3 4 5 6
64. Representation through a Political Action Committee (PAC) supported by my contributions is increasingly necessary to assure that my political interests are protected. 1 2 3 4 5 6
65. It is appropriate for my cooperative to form a PAC to promote its interests. 1 2 3 4 5 6

66. Rank (from 1=highest to 10=lowest) the following issues involving future legislative and governmental attention:

- Pesticide regulations
 - Water use regulations
 - Water quality regulations
 - Land use regulations
 - Air quality regulations
 - Waste disposal regulations
 - Farm labor regulations
 - Trade policy and regulations
 - Farm program legislation
 - Treatment of farms under tax laws
 - Other _____
-

67. Indicate your cooperative's image among the following (A=excellent; B=good; C=average; D=below average; F=improvement needed; E=Don't know):

- My cooperative's membership
- Other commodity growers (not members)
- Other cooperatives
- Consumers
- Government
- The media (newspapers, magazines, radio, TV, etc.)

Appendix A: Survey of Cooperative Members

Communications.

68. How well does your cooperative communicate with you on the following (A=excellent;

B=good; C=average; D=below average; F=poorly; E=Doesn't matter):

- Production Issues
- Marketing Issues
- Trade Issues
- Economic Issues
- Internal Cooperative Affairs
- Environmental Issues
- Health and Safety Issues
- Political Issues

69. I receive information affecting production and marketing decisions from the following

sources (Rank from 1=most likely source to 11=least likely source):

- My cooperative's field representative
- Farm suppliers
- Lenders/bankers
- Farm Advisors
- University
- Private consultants
- Industry publications
- General farm publications
- Newspapers
- The local coffee shop

70. The most effective way for my cooperative to communicate with me is through the following (Rank from 1=best to 7=least best):

- Annual meetings
- Field representatives
- Regional grower meetings
- Grower Liaison Committee members
- My cooperative's publications
- Letters/newsletters
- Commodity industry publications

71. What is the overall performance rating you would give your cooperative in meeting your needs as a producer? (A=excellent; B=good; C=average; D=below average; F=poor)

Circle One: A B C D F

Appendix A: Survey of Cooperative Members

72. Is (are) there any feature(s) of your cooperative that you would like changed? Yes No
Please describe: _____

73. Please identify any feature(s) of your cooperative that you would *least* like to have changed:

74. Additional Comments (including any other specific suggestions for your cooperative's management):

Appendix B: Summary of Survey Responses

The following table presents numeric values from the questionnaire in Appendix A. Questions 11, 50, 51, 52, 53, 54, 55, 56, 66, 69, and 70 require a ranking of alternatives. Hence, the lower the number, the higher the ranking. Questions 12-49 and 56-65 require an indication of degrees of agreement or disagreement with the statement made. Hence, the lower the number, the greater the degree of agreement. Questions 67, 68, and 71 require a grade of A to F. The higher the number, the better the grade, e.g., A=4.0; F = 0.0.

<u>Question</u>	<u>All Cooperatives</u>	<u>Cooperatives Without Bargaining Associations</u>	<u>Bargaining Associations</u>	<u>Non Members</u>
11a	2.93	2.71	3.99	3.36
11b	2.89	2.96	2.57	3.53
11c	2.49	2.69	1.72	2.82
11d	3.24	3.32	2.88	3.63
11f	3.60	3.53	3.93	4.30
11e	4.83		4.83	4.73
 Cooperative Principles				
12	2.70	2.75	2.48	2.42
13	2.33	2.37	2.17	2.64
14	2.26	2.23	2.39	2.66
15	3.41	3.45	3.22	3.37
16	3.12	3.12	3.13	2.98
17	1.80	1.80	1.77	1.83
18	2.65	2.65	2.69	3.01
19	2.32	2.30	2.42	2.08
20	2.04	2.08	1.84	1.88
21	3.43	3.43	3.46	3.17
22	2.96	2.93	3.09	2.80
23	2.15	2.16	2.12	2.32
24	2.15	2.15	2.15	2.35
25	2.34	2.41	2.02	2.47
26	1.79	1.86	1.47	2.07
27	3.80	3.80	3.80	3.51
28	2.59	2.65	2.30	2.41
 Goals and Performance				
29	3.12	3.13	3.09	3.10
30	1.48	1.47	1.56	1.73
31	2.01	2.00	2.07	2.68

Appendix B: Summary of Survey Responses

<u>Question</u>	<u>All Cooperatives</u>	<u>Cooperatives Without Bargaining Associations</u>	<u>Bargaining Associations</u>	<u>Non Members</u>
Goals and Performance (continued)				
32				
33	2.26	2.25	2.34	2.31
34	2.39	2.39	2.42	2.27
35	2.72	2.65	3.02	2.29
36	2.41	2.38	2.57	2.95
37	3.55	3.58	3.42	3.32
38	2.26	2.23	2.39	2.36
39	3.18	3.20	3.12	3.19
40	2.12	2.11	2.16	1.99
41	1.48	1.47	1.52	1.45
42	3.27	3.35	2.84	3.04
43	3.09	3.10	3.06	2.94
44	2.62	2.62	2.59	2.88
45	2.14	2.17	1.98	2.79
46	2.24	2.28	2.09	
47a	2.67	2.70	2.55	2.11
47b	2.87	2.96	2.52	2.77
47c	3.43	3.51	3.15	3.80
47d	2.83	2.84	2.80	2.42
47e				
48	3.47	3.49	3.39	
49	3.33	3.33		
50a	1.89	1.91	1.80	
50b	1.97	1.91	2.30	
50c	2.48	2.41	2.84	
50d	4.45	4.48	4.30	
50e	3.85	4.02	3.16	
50f	5.51	5.50	5.58	
51a	3.02	2.83	4.30	3.52
51b	1.98	1.80	2.88	2.04
51c	2.89	2.89	2.79	3.42
51d	2.79	2.97	3.94	3.12
51e	4.62	4.20	4.78	3.86
51f	6.29	5.99	6.73	5.44
51g			8.14	
51h				
51i				

Appendix B: Summary of Survey Responses

<u>Question</u>	<u>All Cooperatives</u>	<u>Cooperatives Without Bargaining Associations</u>	<u>Bargaining Associations</u>	<u>Non Members</u>
Goals and Performance (continued)				
52a	3.68	3.55	4.45	3.04
52b	3.13	2.96	4.12	2.92
52c	3.15	3.14	3.19	3.10
52d	2.62	2.59	2.76	3.30
52e	3.03	3.11	2.64	3.02
52f	4.39	4.69	2.98	4.98
52g				
53a	3.24	3.15	3.71	3.15
53b	2.44	2.23	3.60	2.12
53c	2.62	2.67	2.34	2.71
53d	3.32	3.31	3.35	4.15
53e	3.69	3.86	2.79	3.59
53f	4.87	4.94	4.50	4.82
53g				
54a	3.86	3.69	4.79	4.71
54b	4.35	4.30	4.62	5.25
54c	1.81	1.80	1.88	1.90
54d	3.44	3.53	2.95	3.28
54e	4.74	4.75	4.68	4.51
54f	5.28	5.32	5.09	5.30
54g	4.98	4.94	5.21	4.76
54h	6.64	6.62	6.74	6.36
54i	6.89	6.90	6.83	6.95
54j				
55a	3.02	2.95	3.39	3.19
55b	2.20	2.19	2.23	2.07
55c	2.43	2.45	2.31	2.11
55d	3.47	3.47	3.47	3.10
55e	3.98	4.07	3.52	3.79
55f				
Legislative/Government Relations				
56	2.14	2.17	1.94	2.22
57	1.94	1.91	2.08	2.23
58	2.23	2.30	1.92	2.49
59	3.33	3.36	3.17	3.39
60	1.75	1.76	1.71	2.10
61	2.04	2.02	2.12	
62	2.17	2.16	2.24	

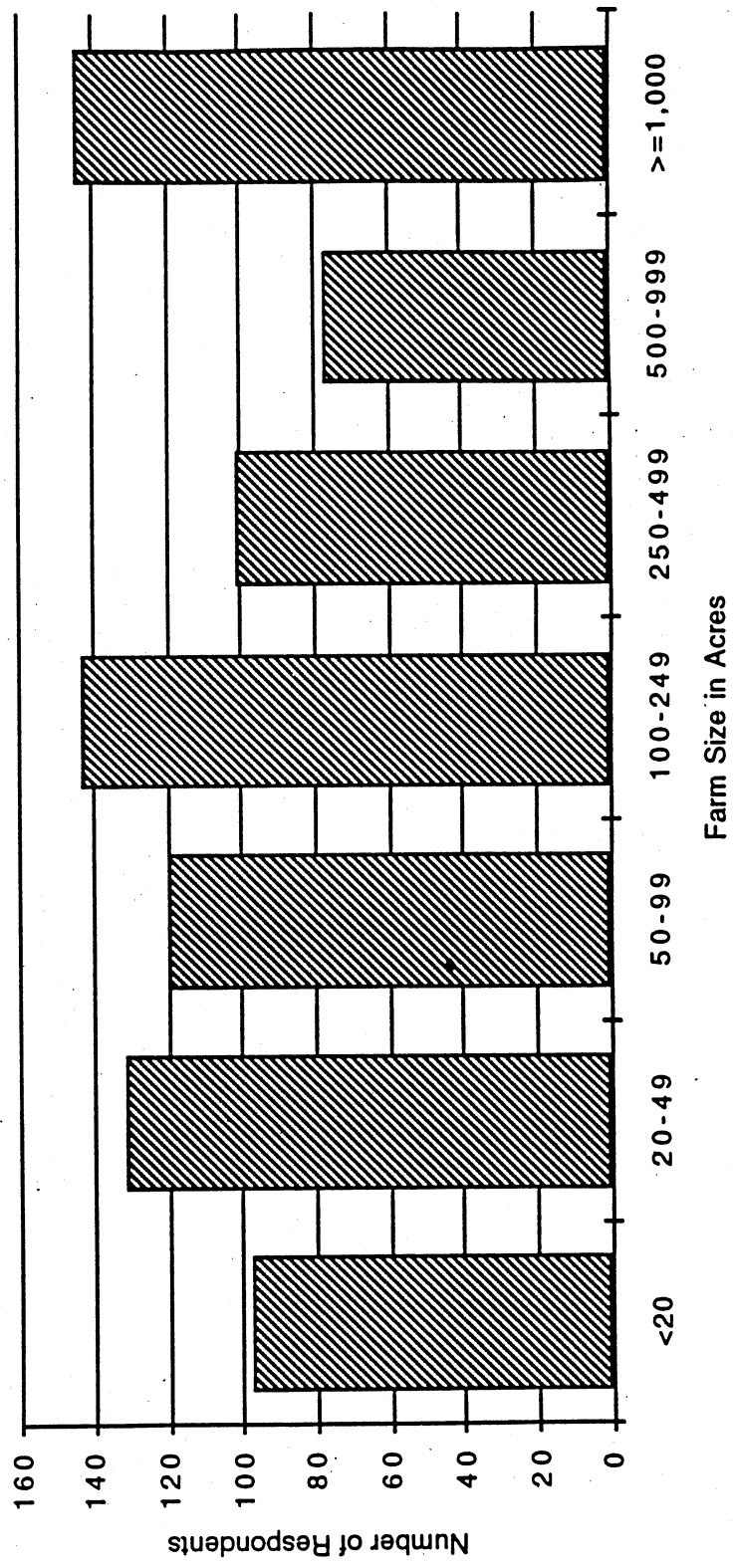
Appendix B: Summary of Survey Responses

<u>Question</u>	<u>All Cooperatives</u>	<u>Cooperatives Without Bargaining Associations</u>	<u>Bargaining Associations</u>	<u>Non Members</u>
Legislative/Government Relations (continued)				
63	2.14	2.18	1.98	2.24
64	2.55	2.59	2.39	2.36
65	2.70	2.76	2.44	2.50
66a	2.92	2.86	3.22	2.51
66b	3.00	2.98	3.12	2.62
66c	4.82	4.74	5.22	5.28
66d	5.35	5.35	5.34	5.04
66e	5.56	5.43	6.15	5.76
66f	6.31	6.24	6.62	6.36
66g	5.83	5.98	5.12	6.00
66h	5.04	5.12	4.64	4.82
66i	6.85	6.82	6.95	7.44
66j	6.65	6.68	6.49	6.84
66k				
67a	3.23	3.18	3.22	2.80
67b	2.28	2.31	2.04	1.70
67c	2.96	3.05	2.75	2.41
67d	3.17	3.24	2.42	2.17
67e	2.89	2.91	2.66	2.66
67f	2.71	2.77	2.34	2.20
Communications				
68a	3.11	3.06	3.13	2.73
68b	3.03	3.00	3.01	2.69
68c	2.76	2.71	2.96	2.46
68d	2.64	2.62	2.67	2.19
68e	2.61	2.49	3.01	1.44
68f	2.57	2.56	2.46	2.48
68g	2.45	2.45	2.35	2.32
68h	2.59	2.57	2.58	2.42
69a	3.88	3.99	3.38	4.09
69b	5.49	5.53	5.35	5.86
69c	7.41	7.55	6.71	
69d	4.42	4.43	4.40	
69e	5.67	5.28	6.12	
69f	6.25	6.28	6.10	
69g	3.44	3.50	3.16	
69h	4.52	4.58	4.20	
69i	5.80	5.75	6.07	

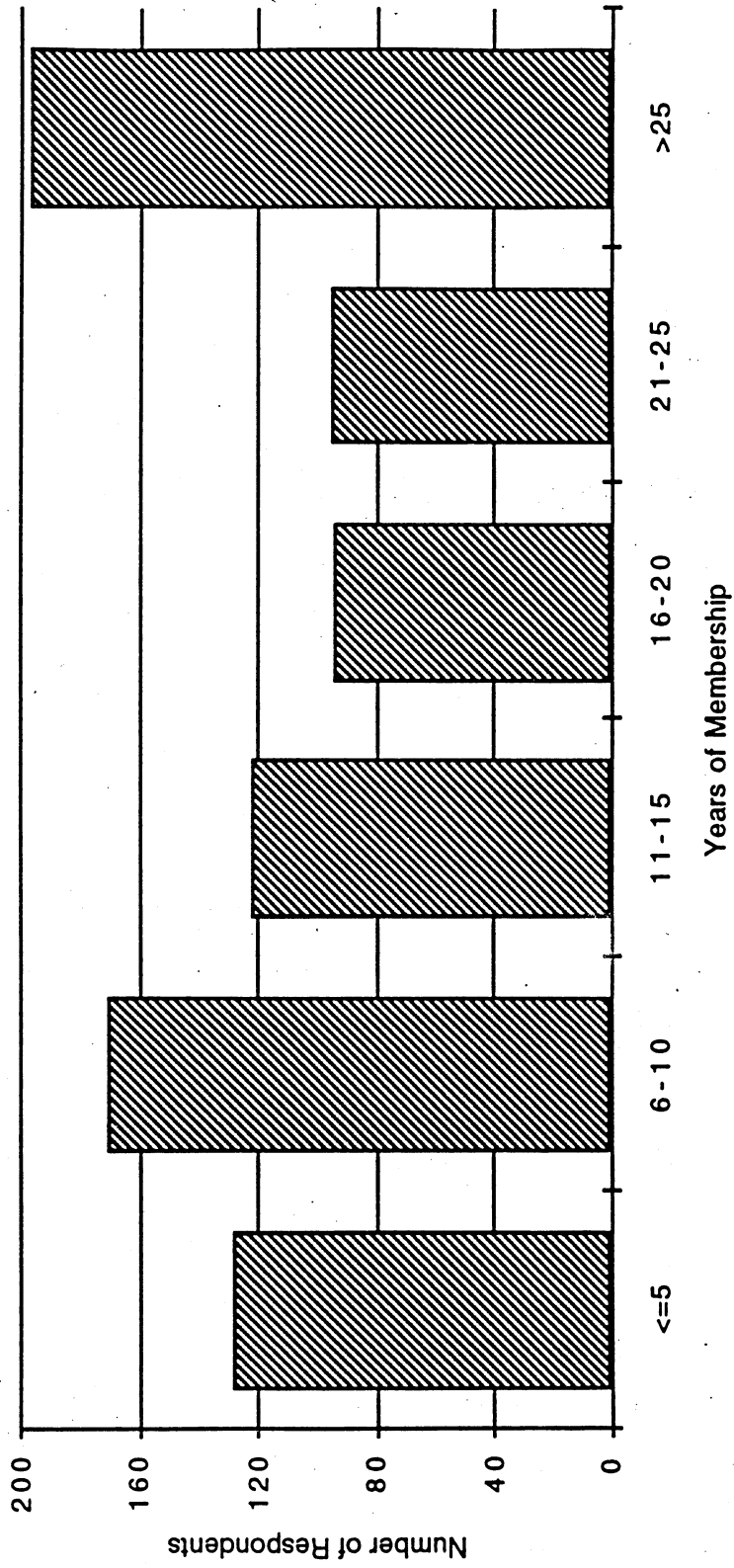
Appendix B: Summary of Survey Responses

<u>Question</u>	<u>All Cooperatives</u>	<u>Cooperatives Without Bargaining Associations</u>	<u>Bargaining Associations</u>	<u>Non Members</u>
Communications (continued)				
69j	7.69	7.72	7.54	
70a	4.67	4.72	4.40	3.06
70b	2.94	2.97	2.81	2.89
70c	2.74	2.74	2.74	
70d				
70e	2.62	2.58	3.00	3.81
70f	2.30	2.35	2.09	2.26
70g	4.44	4.58	3.72	2.59
71	3.17	3.16	3.19	

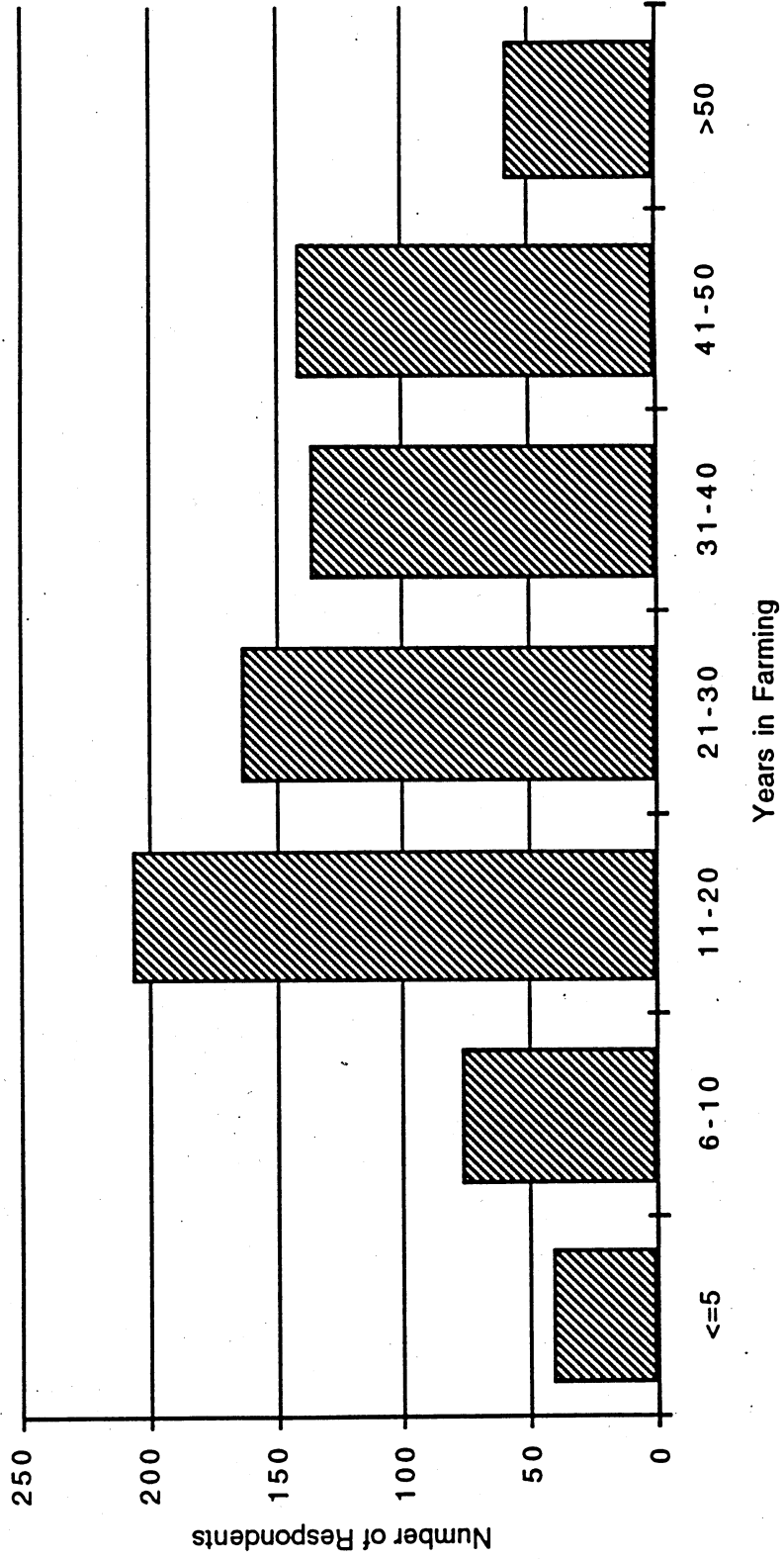
**Appendix C: Farm Size Distribution
Distribution by Size Category**



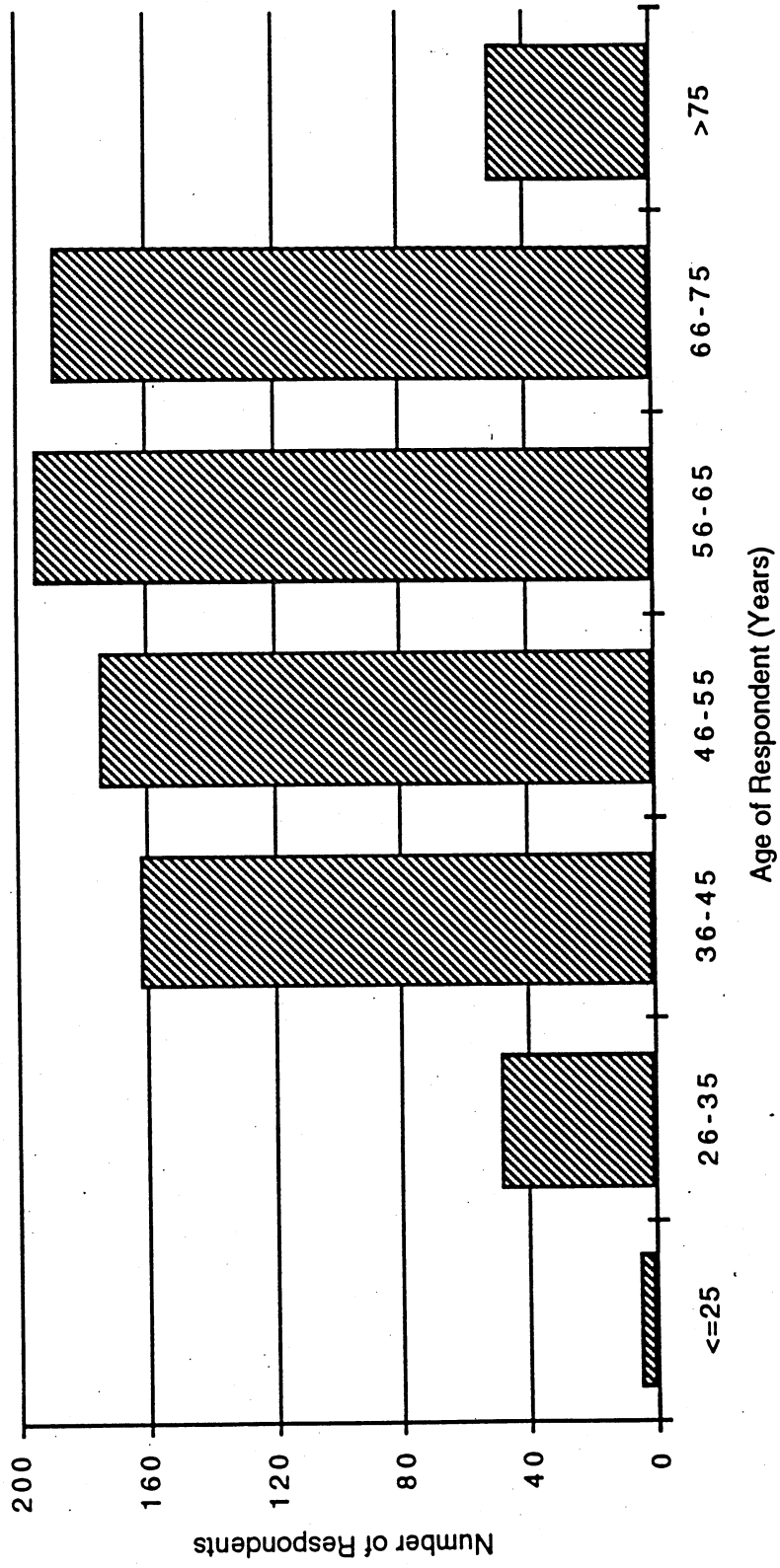
**Appendix C: Cooperative Membership
Number of Years in the Cooperative**



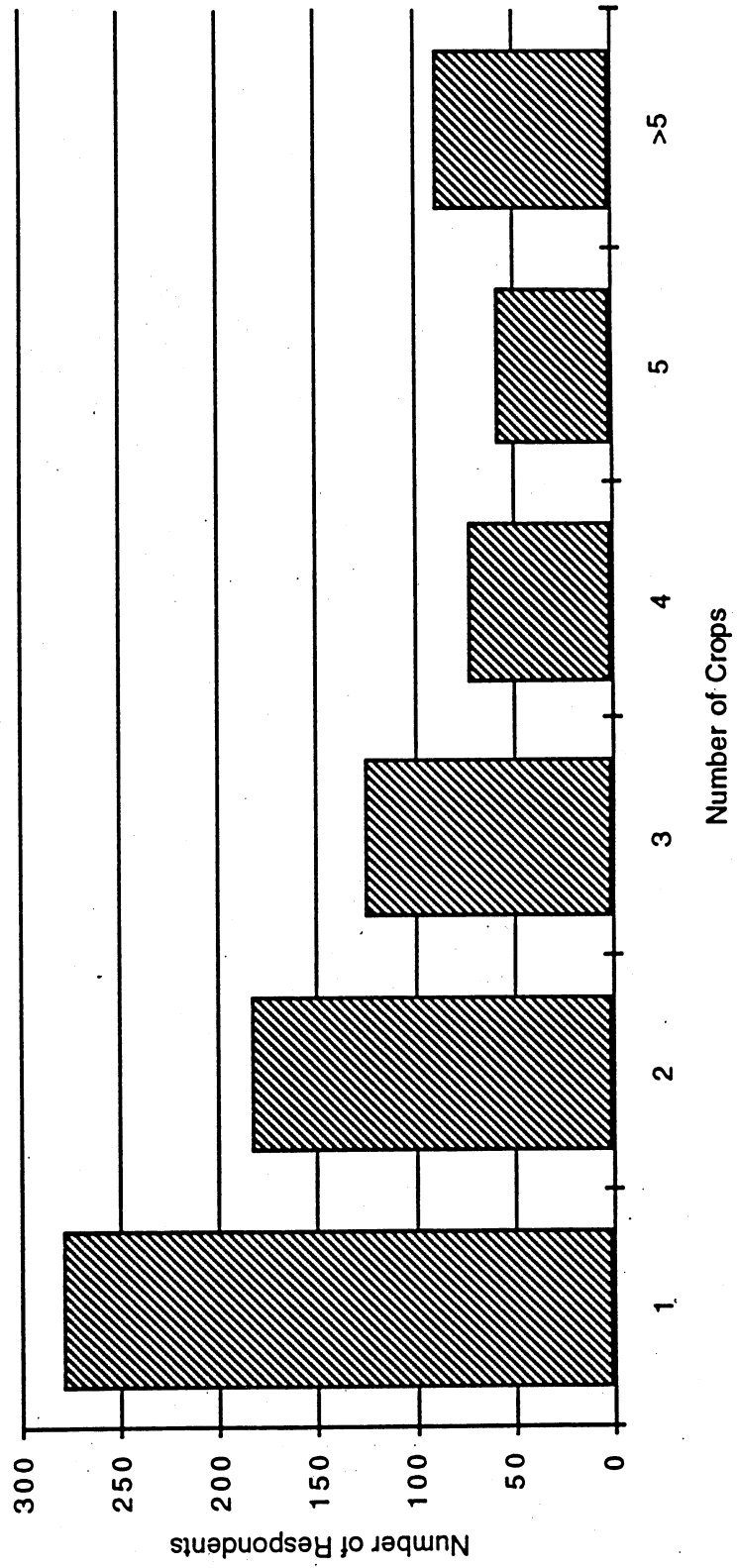
Appendix C: Years Engaged in Farming



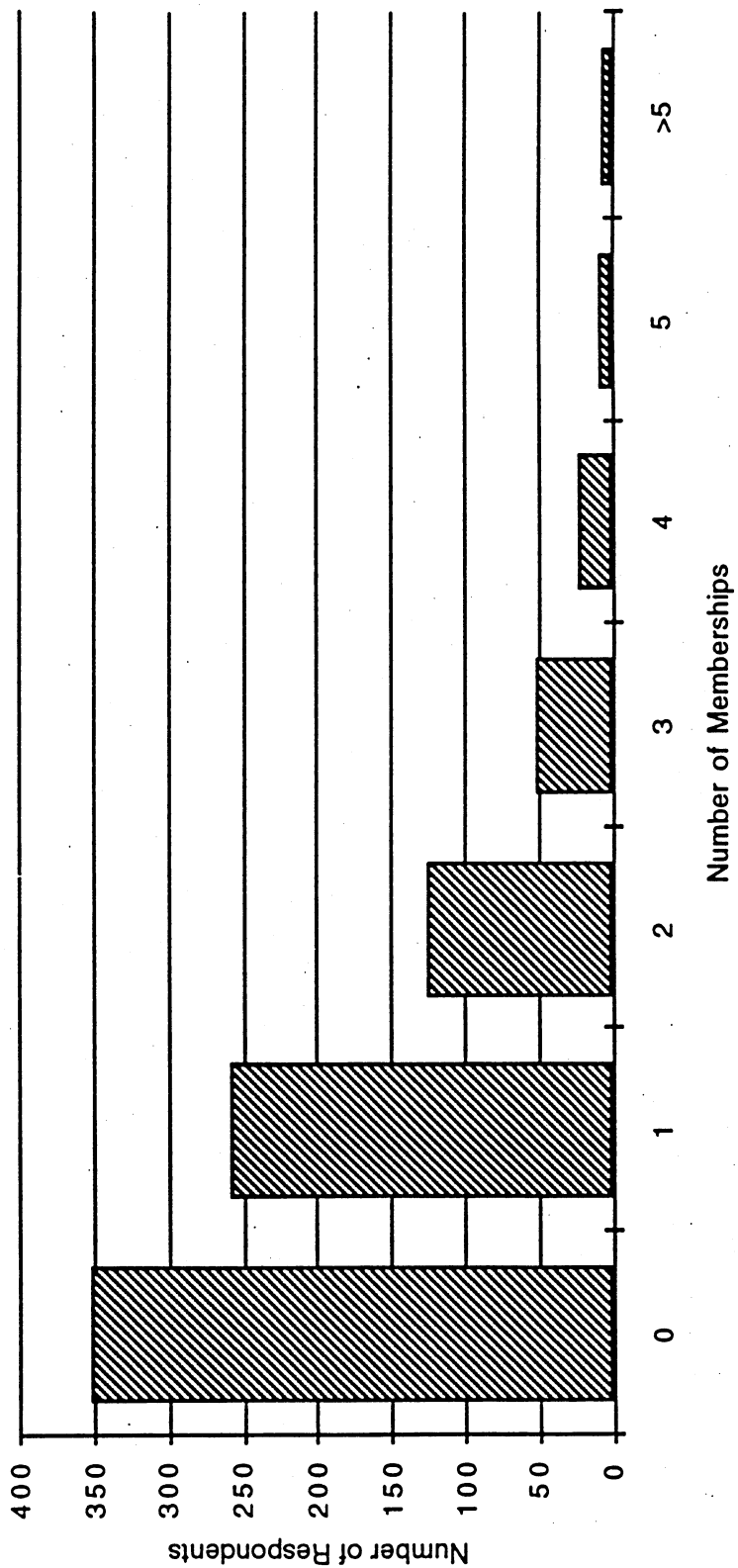
Appendix C: Age of Respondents



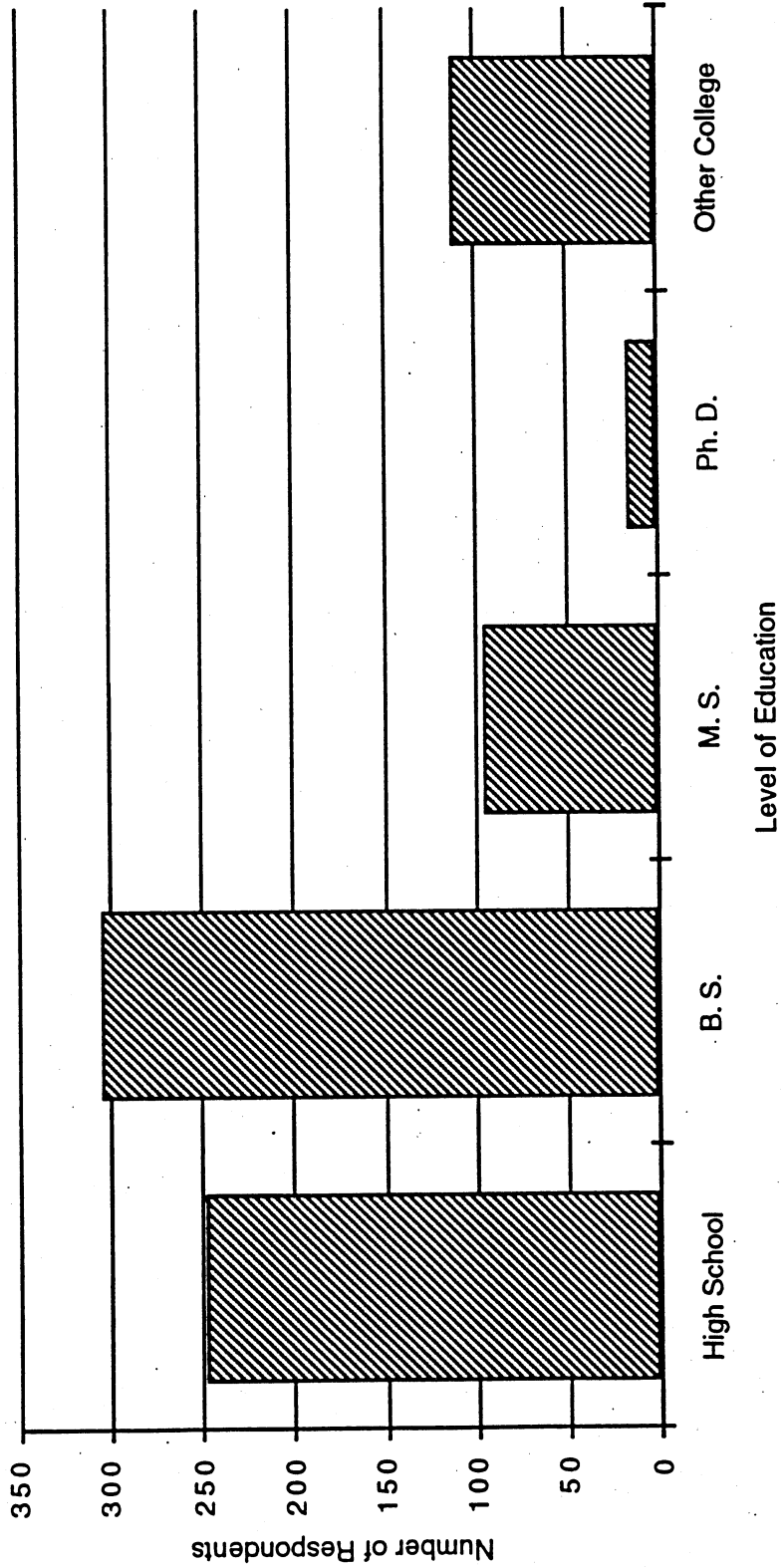
**Appendix C: Number of Different Crops
Produced by Respondents**



**Appendix C: Cooperative Memberships
Memberships in Other Cooperatives**



Appendix C: Level of Education



Appendix D: Survey Methodology

A total of 3,000 questionnaires were mailed to producers in February and March of 1991. Some of the questionnaires were mailed directly from the University of California while others were mailed from the participating cooperative. The decision of how the questionnaires were to be mailed was dependent on each cooperative's relationship to its members, and the desire to get as maximum a return as possible. In some cases, it was felt that a mailing directly from the University of California would elicit a more favorable response, while in others it was felt that a mailing from the cooperative would elicit a more favorable response. Of the 2,500 questionnaires mailed to cooperative members, 830 were returned (33.2 percent). The return rate among individual cooperatives ranged from 55.8 percent to 16.6 percent.

Reasons for the low response rate varied. It was hoped that a high response rate would be encouraged by sending the questionnaires along with a letter from the president or chief executive officer of the cooperative involved. However, the timing of the survey probably had an impact on response rates from some cooperatives. The survey period, February-March 1991, took place after a devastating freeze hit California which destroyed a large percentage of the citrus and avocado crop. In addition, farmers were facing drastic reductions in amounts of water due to a continuing drought. It should be noted that because of the freeze and drought, some of the answers may have a certain bias.

The response from nonmembers was only 19.2 percent. It was anticipated that the nonmember response would be lower than that for members. The reasoning for this conclusion is that nonmembers, by definition, have significant reason not to be a cooperative member, and, hence, would not have the interest or motivation to fill out the questionnaire.

Sample

From the participating cooperatives, a sample of members and nonmembers was developed that reflected a cross-section of California agriculture. A total of 2,500 cooperative members and 500 nonmembers were selected to participate in the survey. The responses from the nonmembers were intended to be checkpoints to determine if any significant variance in answers occurred.

The basis used to allocate the number of names from each cooperative was as follows: The 2,500 cooperative sample was allocated into two equal parts of 1,250, which was divided by 12 to give each cooperative a base number of 104. To this number was added another from the second part of the sample which was determined proportionately to each cooperative's

Appendix D: Survey Methodology

number of members compared to the total membership of the twelve. Combining these two numbers resulted in drawing a sample from each cooperative of the following numbers: Blue Diamond (352), Butte County Rice Growers (126), Calavo (228), Calcot (290), Cal West Seeds (133), California Canning Peach Association (136), California Tomato Growers Association (120), Dairyman's Cooperative Creamery (118), Raisin Bargaining Association (221), Sunmaid Growers (189), Sunkist Growers (423), and Tri Valley Growers (147). Similarly, a sample of nonmembers was constructed using the same principles as for cooperative members. Each cooperative was then asked to supply names by taking every n th name from its member and nonmember list where n was a number equal to a cooperative's total membership divided by the number of names to be supplied. (e.g., for Blue Diamond, it provided every $5,000/552$ or 14th name from its membership list).

Because of the nature and method by which the sample was constructed, it should not be construed as being representative of all cooperative members or nonmembers in California, or necessarily of those cooperatives involved in the survey. The results can be construed to indicate some trends from which conclusions can be drawn based on other data and knowledge that are available. It is most likely that the survey results are biased; however, without additional knowledge about the total population from which the sample was drawn, it is difficult to estimate the degree and direction of bias.

The questionnaire used in the survey was developed based on the principles of cooperation, changes taking place economically, politically, and structurally that affect cooperatives and its members, as well as communications needs. Each cooperative had a questionnaire tailored to its individual membership with a number of questions unique only to it. Each cooperative's questionnaire, however, centered on common questions and themes central to the survey (see Appendix A for the generic questionnaire). Hence, each questionnaire was divided into five parts.

The first part provided general background information on each individual, the second part dealt with the respondents' knowledge about the principles of cooperation (see Appendix F for a more detailed discussion), the third dealt with knowledge about the goals and performance of cooperatives, the fourth part dealt with legislative and government relations issues, and the fifth and final part dealt with issues relating to communications with producers.

The questionnaire was six pages in length with some 71 questions. Responses to questions were in one of three forms. For most questions, respondents were asked to record varying degrees of agreement with a particular statement. Six categories were given from strong agreement to

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don't know. For some other questions, respondents were asked to rank their responses. For a third set of questions, respondents were asked to provide a grade that reflected how well the cooperative performed in that category. While not intended to be tedious and complex, many respondents verbally offered that the questionnaire took at least an hour to complete.

Appendix E: Participating Cooperatives

The cross-section of cooperatives used in this survey doesn't necessarily represent the whole of California agriculture. However, it does represent a cross-section of California agriculture's diversity and cooperative structure. Included within the survey were cooperatives that varied in their capital intensity, volume, dollar sales, focus of activities, commodities represented, geography, and involvement with government programs.

A brief discussion of each cooperative follows.

Blue Diamond

Blue Diamond is an almond marketing cooperative. It has 5,000 members and markets about 45 percent of California's almond crop. Its 1991 sales amounted to \$424 million. The total gross farm value of almonds in California was \$591.6 million in 1990. Over 70 percent of the crop is exported. The almond industry has a federal marketing order which provides marketing and production research programs for the industry, and market allocation of supply for stabilization purposes. The industry is located primarily in the Sacramento and San Joaquin Valleys. California accounts for almost 100 percent of the almonds grown in the United States. Blue Diamond publishes a grower oriented magazine, *Almond Facts*.

Butte County Rice Growers

Butte County Rice Growers is primarily a supply cooperative with 420 members and \$9.5 million in sales in 1990. It also has a small drying cooperative. Its members market their rice either through two other cooperatives in the rice industry (Farmers' Rice and Rice Growers Association of California) or two noncooperative companies. The rice industry has a state marketing order for research. Most rice farmers produce rice in California under the federal price support program for rice which is instrumental in supporting farm income. California produces nearly 20 percent of the rice in the United States with a gross farm income of \$190.2 in 1990. Almost 25 percent of the rice produced in California is exported.

Calavo

Calavo is a marketing cooperative for avocados. Most of its sales go into the fresh market, but it has been developing a processing capability as well. It has 2,325 members and its 1991 sales were \$132.5 million. The gross farm product for California avocados in 1990 was \$239.4 million with exports accounting for only 4 percent of sales. California produces over 75 percent of the avocados in the United States. The avocado industry has a state marketing order for marketing programs and production research. If

Appendix E: Participating Cooperatives

the North American Free Trade Agreement is approved, avocados could face significant competition from Mexican-produced avocados.

Calcot

Calcot is a marketing cooperative that markets growers' cotton after it is ginned. It has 3,500 members and \$674 million in sales in 1991. Growers may have their cotton ginned at either a cooperative gin or a noncooperative marketing company. Hence, growers may be members of both a cooperative gin and Calcot. Cotton is the largest crop grown in California on 1.1 million acres with a gross farm value of \$1.2 billion in 1990. While there is no marketing order for California cotton, a large portion of it is produced under provisions of the federal farm price support program for cotton. The crop is mostly produced in the southern San Joaquin Valley from Merced to Kern Counties, and is affected by federal and state water project allocations. In addition, cotton is a heavy user of pesticides. Hence, California cotton is very sensitive to water and pesticide policies and regulations. California produces almost 20 percent of the U.S. cotton crop with over 70 percent of it exported. Calcot produces a quarterly publication for members, *Calcot News*, and a weekly newsletter, *Calcot Cotton Capsules*, written for Calcot directors and gin managers.

Cal West Seed

Cal West markets seed crops for its members. It has 536 members and \$40.9 million in sales in 1990. Its membership is multi-state. Sales of its products are on an international basis. Total gross farm income from seed crops is not reported; however, the total for alfalfa seed in 1990 was \$50.5 million.

Dairyman's Cooperative Creamery Association

Dairyman's is a processing and marketing cooperative with membership of 256 and 1991 sales of \$500 million. In addition to marketing its members milk, it also provides feed and other supplies for its members' production. Milk is the leading agricultural commodity in California with a 1990 gross farm value of \$2.6 billion. Only 2.5 percent of milk and milk products produced in California is exported. California accounts for about 14 percent of the total U.S. milk supply. The milk industry in California operates under a state marketing order that sets minimum prices and a pooling arrangement for distribution of market revenues from sales of milk to handlers. In addition, another state marketing order provides for promotion and research activities. Milk production is supported under a federal milk price support program.

Appendix E: Participating Cooperatives

Sunkist

Sunkist is a marketing and processing cooperative that markets primarily fresh and processed citrus with sales of \$920 million in 1991. Its membership totals 6,000 members and is a complex arrangement of packing houses and district exchanges. Members' fruit is packed through either a cooperative packing house or noncooperative packing house. These houses are members of a district exchange which is represented on the Board of Directors. Gross farm income from citrus production in California amounted to nearly \$900 million in 1990. Oranges accounted for \$562.4 million with 25 percent exported, lemons accounted for \$237.8 with 30 percent exported, and grapefruit accounted for \$80.4 million with nearly 20 percent exported. The citrus industry operates under three federal marketing orders. The "prorate" provisions of the orange marketing orders, which allocate supply on a weekly basis over the year, has generated considerable controversy both inside and outside the industry. California produces nearly 40 percent of U.S. orange production, 85 percent of U.S. lemon production, and 20 percent of U.S. grapefruit production. Sunkist produces *Sunkist Magazine* which is sent to its members.

Sunmaid

Sunmaid is a raisin processing and marketing cooperative with membership and production primarily in a 50 mile radius of Fresno. It is part of a larger federated cooperative, Sun Diamond, which provides marketing, finance, and other administrative and government relations functions. (Other members of Sun Diamond are Sunsweet Prunes, Diamond Walnut, and Valley Fig.) Its 1991 sales were \$179 million and it has 1,600 members. Gross farm value of raisins was \$546.7 million in 1990 with 33 percent exported. The industry operates under both a federal marketing order, The Raisin Administrative Committee (RAC), and a state marketing order, the California Raisin Advisory Board (RAB). RAC provides for a volume control program, minimum grade and size regulations and inspections, and market research and development projects. RAB provides for advertising, promotion, and research. California produces 100 percent of the raisins in the United States. Also present in the industry is a bargaining association, which was also included in the survey and is discussed next. A quarterly magazine, *Sun-Diamond Growers*, is sent to Sunmaid members which includes news about Sunmaid.

Raisin Bargaining Association

The Raisin Bargaining Association represents 2,200 member producers in the California raisin industry. In addition to negotiating prices for its members' raisins, it also provides them a number of services. It

Appendix E: Participating Cooperatives

represents them in government relations as well as in dealing with the packers in the industry, who are not a cooperative.

Tri Valley Growers

Tri Valley Growers is a multiple commodity fruit and vegetable processing firm with 800 members. It is a dominant force in the industry and competes in a global market. Its 1991 sales were \$825 million placing it in the ranks of the Fortune 500's largest firms in the United States. It has a number of profit making subsidiaries that include S&W Foods, Oberti Olives, and Valley Forklift. There are three bargaining associations in the commodities that Tri Valley's producers supply. Two of these associations are included in the study and are described below.

California Canning Peach Association

The California Canning Peach Association has 600 members and represents its members in all aspects of processing and marketing cling peaches. In addition to bargaining for price, it engages in market promotion and development of new markets. In addition to Tri Valley, Del Monte Foods is the other large dominant force processing peaches. The canning peach industry operates under a state marketing order which provides funds for advertising, promotion, and research. At one time in its past, the peach industry had a supply control program which was highly controversial. There is considerable debate and discussion in the industry on how to keep supplies in line with market demand. The farm value of California processed peaches is \$102 million. A magazine, *Cling Peach Review*, and a monthly newsletter, *Peach Fuzz*, is sent to California Canning Peach Association members.

California Tomato Growers Association

The California Tomato Growers Association has 300 members and represents them in all aspects of processing tomatoes. While the processing tomato industry is not as concentrated as the processing peach industry, the firms in the industry, in addition to Tri Valley, are large, multi-national, and have global marketing strategies. The processed tomato industry has a farm value of \$617 million in production and also operates under a marketing order. Tomato growers tend to have larger acreages than growers of fruit and nut crops. They also tend to grow other field crops as well. A monthly magazine, *The California Tomato Grower*, is sent to California Tomato Growers Association members.

Appendix F: Principles of Cooperation

In 1957, H.E. Erdman and J.M. Tinley published a leaflet, "The Principles of Cooperation and Their Relation to Success or Failure."¹ A close reading of this publication reveals a number of principles relating to cooperatives based on the Rochdale Principles and updated to correspond with the time of the writing. These principles are:

- open membership
- democratic control
- distribution of savings to patrons
- limited returns on capital

These first four principles are described as those that provide basic differences between cooperatives and other forms of business. In addition to these principles, others are:

- political or religious neutrality
- cash trading
- promotion of education
- need for the association
- scope of activity
- continuous expansion
- suitable corporate and financial structure
- suitable records, accounts, and audits
- competent management
- dynamic leadership

The first four principles, as mentioned, are those characteristics of cooperatives that set them apart from other forms of business. The open membership principle is variable in its form and is not important as a success factor. Democratic control varies from the principle of one person-one vote to voting based on patronage. The distinguishing feature is that it is the patrons, not the equity holders, who vote in matters concerning the cooperative. The distribution of savings to patrons is another distinguishing feature and is usually accomplished in proportion to transactions. The final one of the four, limited returns on capital, is a basic characteristic, and means that instead of returning the profits of the business according to how much capital is put up, it is returned in the form of patronage dividends.

Political and religious neutrality is meant to keep the cooperative from hinging its success or failure on political changes. As will be seen in later discussion, this principle has been modified in current times. The principle of cash trading relates to giving credit to members as well as financing the

¹A number of publications and studies exist on this topic. For a more complete listing, see James R. Baarda, *Cooperative Principles and Statutes: Legal Descriptions of Unique Enterprises*, United States Department of Agriculture, Agricultural Cooperative Service, ACS Report #54, March 1986, and Jeffrey S. Royer, Editor, *Cooperative Theory: New Approaches*, United States Department of Agriculture, Agricultural Cooperative Service, ACS Service Report #18, July 1987.

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cooperative, and places greater priority on equity financing than debt financing. This principle also applies to other forms of business.

The promotion of education is a principle on which many cooperatives placed a great priority but which today comprises a low priority. It is important, however, in maintaining a cooperative's growth and continuity. The need for an association of members must be explicitly defined. This need is usually in the form of reducing costs, improving prices, and/or providing services. It is often interpreted as meeting or beating the competition.

The principle of having an adequate volume of activity relates both to economies of scale as well as market power. This does not mean that large firms are better than small ones; it means that a critical mass is necessary to maintain business. Scope of activity has two dimensions: efficiency through specialization and economies of scale. Some firms are successful by limiting their scope so that they specialize in one area. Others are successful by broadening their scope so as to take advantage of economies of scale and other size advantages. Continuous expansion should not be interpreted to mean that its lack will lead to decline, but rather that operations of a cooperative are adjusted to new conditions as they occur. It really refers to flexibility of operations to take advantage of opportunities as they occur.

A suitable corporate and financial structure means that a cooperative must be structured to operate as such regarding voting and the distribution of savings. It also means that if financing is necessary from outside sources in addition to patron equity, there will be no loss of control by the membership. Finally, a suitable structure ensures an automatic and gradual shift of voting and ownership rights. Suitable records, accounts, and audits are necessary for the proper financial and membership accounting, and functions in a cooperative as in any other business.

Competent management is a key factor in the success of any organization. It is a major responsibility of the Board of Directors of any organization to select competent management and hold it accountable for achieving the goals of the organization. However, the characteristics of competent management are intangible and not easy to identify.

Dynamic leadership is also a major responsibility of the Board. Many organizations are successful because of the leadership of one individual; when that person leaves, the organization falls apart. Organizations that are successful will have programs for developing leadership potential in the organization, and spreading that leadership throughout the organization. By doing so, an organization can assure it has a reservoir of competent leadership to accommodate growth as well as succession.

Since 1957, when Erdman and Tinley wrote their publication, many changes have taken place in the environment in which cooperatives operate.

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These changes don't invalidate the principles that Erdman and Tinley identified, but they do mean that some additional interpretation and weighing is necessary for their application to current problems.

