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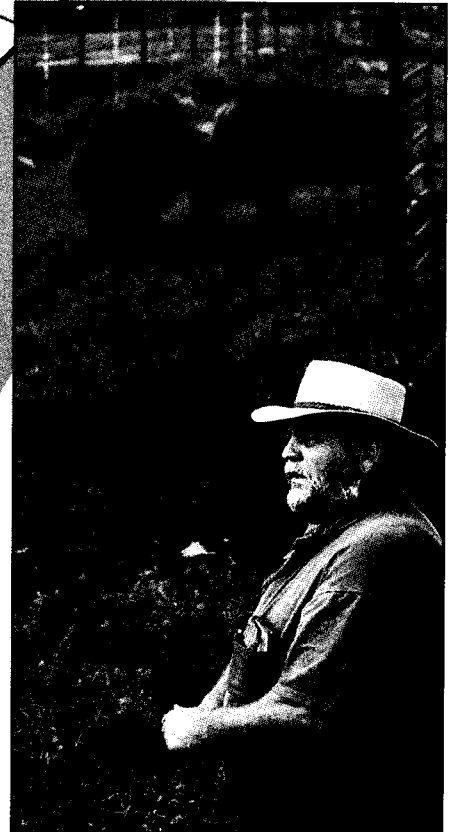
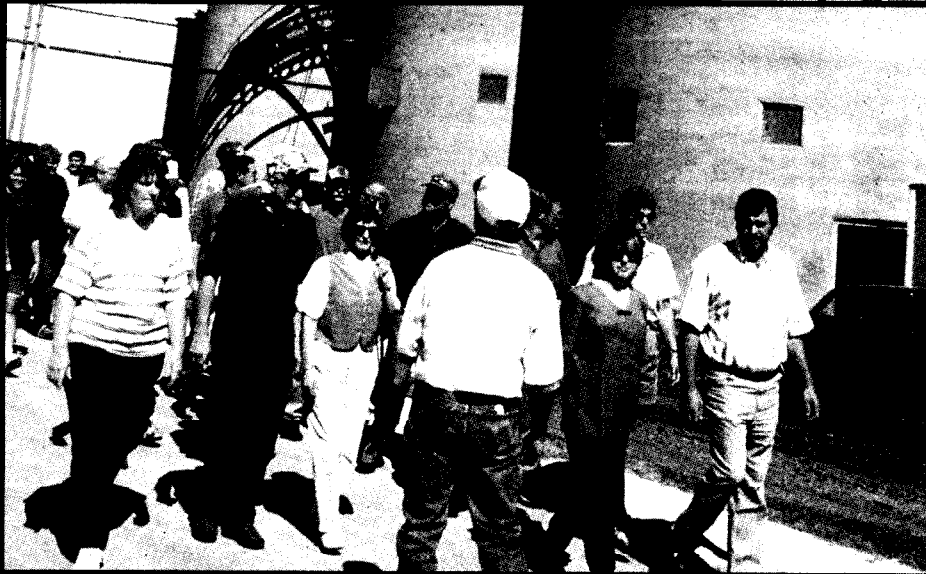
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Rural Business-  
Cooperative  
Service

Service Report 54

# Creating 'Co-op Fever'

## A Rural Developer's Guide To Forming Cooperatives



## Preface

Bill Patrie has been in the trenches assisting the development of new cooperative business organizations in North Dakota and other Midwestern States. He began his career as an economic development specialist for a regional commission, later joined the North Dakota Economic Development Agency, and subsequently has been with the North Dakota Association of Rural Electric and Telephone Cooperatives.

He shares his wealth of experiences and observations gained from guiding many new-generation cooperatives that have given North Dakota the reputation of being a focus of "Co-op Fever." Mr. Patrie has been in demand as a speaker and provider of development services beyond the region of his employment, but has had to curtail appearances to concentrate on his duties with the statewide association of rural electric and telephone cooperatives.

This manual not only makes his views available to the public, but also adds topics, detail, and illustrations. By design, this manual is based on his experience with agricultural value-added cooperatives. Many of the principles, practices, and policies he espouses and has found effective may be applicable to other cooperatives. He shares his insight and wisdom in the hope that others not only can apply his experience in their work but also advance the art of cooperative formation.

The preparation of this report was funded partly by a cooperative research agreement between the Cooperative Services program of USDA's Rural Business-Cooperative Service (RBS) and the North Dakota State University (NDSU) Agricultural Experiment Station. Professor David Cobia served as the principal investigator for NDSU and Dr. Randall Torgerson, RBS deputy administrator, served as RBS liaison. The report also contributes to NDSU Experimentation Station Project 1394, titled "Strategies for Rural Cooperative Development."

Appreciation is expressed to Dennis Hill, executive vice president, North Dakota Association of Rural Electric and Telephone Cooperatives, for allowing Mr. Patrie to work on this project.

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# Creating 'Co-op Fever': A Rural Developer's Guide To Forming Cooperatives

Rural Development growth strategies in North Dakota: A discussion about the principles and practices of starting new value-added cooperatives

William Patrie, Rural Development Director  
North Dakota Association of Rural Electric  
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## Cooperative Fever in the Northern Plains

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*As it is we live experimentally, moodily, in the dark, each generation breaks its eggshell with the same haste and assurance as the last, pecks at the same indigestible pebbles, dreams the same dreams, or others just as absurd. And if it hears anything of what former men have learned by experience, it corrects their maxims by its first impressions, and rushes down any untrodden path which it finds alluring, to die in its own way, or become wise too late and to no purpose.*

This cryptic caution from the philosopher Santayana frames my view about the origin of "Co-op Fever" in the Northern Plains. The people and the actions referred to in this account are not adequate to establish a cause and effect relationship. More likely, it has been a convergence of circumstances, personalities, economic conditions, political culture, and governmental actions that generated this phenomenon.

Cooperative development is an organized response to a need or an opportunity perceived by at least several people, so it is foolish to link their individual motivations to that of some grand strategy. People come to invest and commit themselves to cooperative formation for personal reasons and I do not profess to entirely understand why this phenomenon has resurfaced in the 1990s.

It is also unwise to compare motivational factors from today's generation as paralleling those of historical cooperative movements. With the exception of a few persons, the thinking process that has created this current resurgence of cooperatives lacks direct ties to past development efforts.

Many writers have defined these as "new" or "next generation" cooperatives (Harris et al.). The traditional terms used to describe cooperative operating principles—estate retirements, open membership and competitive yardstick—seem strange to the new practitioners. Frequently, potential new cooperative investors asked, "Is this like our oil or grain co-op? Do I have to die to get my money?"

### New-Generation Cooperatives

The models most often used to design new-generation cooperatives come from American Crystal Sugar Company and Minnesota Corn Processors. The sugar cooperative was formed by beet growers in the Red River Valley of North Dakota and Minnesota. The original company sought to sell its sugar processing operation. Beet growers faced the prospect of losing their only access to a market. George Sinner from Casselton, N.D., and Pat Benedict, Sabin, Minn., were two early producers who organized efforts by the beet growers to purchase American Crystal.

They used a California model of cooperatives that required grower or producer agreements as well as an up-front equity investment. This same pattern also was simultaneously adopted by three other start-up sugarbeet processing cooperatives—Minn-Dak Farmers Cooperative, Southern Minnesota Sugarbeet Processors and Red River Cooperative (later merged with American Crystal Sugar Company).

Minnesota Corn Processors at Marshall, Minn., used a similar model to create a corn wet milling plant. The plants generated delivery rights for farmers and also required them to deliver the agreed-upon amount of beets or corn. Farmers who chose not to deliver

risked the loss of their equity investments. The processing facilities were assured of a dedicated supply of raw product.

The producers who joined the corn processing cooperative also agreed to deliver, and if necessary, at prices below the market rate. This was necessary to assure adequate operating margins at the processing facility. This provided a way to limit operating losses and encourage lenders to finance the project.

When American Crystal Sugar cooperative was created, there were no other outlets for sugar beets in the Red River Valley. To ensure successful cash flow, the new cooperative spread out payments to growers during the course of a processing and marketing year. The final payment reflected the actual operating margins achieved. The volume required for an efficient processing operation was assured. This created a strategic advantage over other competing processing plants that lacked captive supplies.

The characteristics of new-generation cooperatives have emerged over time and distinguish them from the traditional open cooperatives, at least in the Great Plains States. Several attributes of these new-generation cooperatives are:

- Equity investment is required prior to establishing delivery rights.
- Producer agreements between the cooperative and the producer link delivery of products to equity units purchased. Total delivery rights make equal processing capacity available for sale.
- Purchase of commodities is authorized by the cooperative for undelivered contracts.
- The transferability of equity feature means that shares can be sold to other eligible producers at prices agreed to by the buyers and sellers. Equity shares appreciate or depreciate in value based on the earnings potential they represent. Although the cooperative's board of directors doesn't set prices, they must approve all stock transfers so that shares do not get into the hands of ineligible persons.
- High levels of cash patronage refunds are issued annually to the producer. Since equity is achieved in advance of business startup, a majority of the net can be returned annually to producers in cash.

## Failures

Even though there were four examples of successful new-generation cooperatives at work in North Dakota and Minnesota since the early 1980s, the idea was not duplicated until the Dakota Growers Pasta Company's successful equity drive in 1991.

Resistance to the idea of contributing equity had been built up after several unfortunate failures. The International Potato Cooperative at Grand Forks, N.D., was forced to sell its potato processing plant to J.R. Simplot. This failure suggested that cooperatives lacked market discipline. Another aggravation was growers' refusal to change from the variety of potato they felt yielded best in Red River Valley soil to the variety that made the best french fries. The cooperative processor could not compete and eventually lost its operating line of credit with the St. Paul Bank for Cooperatives.

The formation of alcohol or ethanol cooperatives also failed. The most spectacular was the American Energy Cooperative. After extensive feasibility studies and large commitments of equity (pledges to deliver barley), the cooperative declared bankruptcy. The efforts of lenders to collect on the barley pledges from individual producers frightened other would-be investors in new cooperative ventures. Producer-investors feared the individual liability associated with pledges and were reluctant to trust organizers.

A cooperative feedlot was started by North Dakota Farmers Union at Sawyer. It was also subsequently sold to a private entrepreneur. Most agree that the cooperative failed because it paid too much for members' cattle when they entered the lot and was unable to make money finishing the cattle to slaughter weights.

## Successful Process Established

What has now become a systematic process was developed to accommodate the needs of durum grower-members of the Dakota Growers Pasta Company, the cooperative that emerged in 1991.

The North Dakota Economic Development Commission had attempted to recruit a large pasta cooperative to the State. Although unsuccessful, the idea of converting durum wheat into pasta was firmly implanted in our minds. The North Dakota Planning Council helped bring the "Noodles by Leonardo" plant to Condo, N.D. Soon after I joined the State association of electric and telephone cooperatives, we convened a meeting with others interested in discussing

formation of a pasta cooperative. Joining me at that first meeting on Aug. 9, 1990, at the city hall in Maddock, N.D., were Bob Spencer and John Rice, Jr.

### **The Organizers**

Bob Spencer managed Baker Electric which served the "Noodles by Leonardo" plant. Spencer was chairman of the Durum Triangle Industrial Park Corporation that had recruited and helped finance Leonard Gasparre's pasta plant in 1980. John Rice, Jr., was a young farmer from Maddock and president of the U.S. Durum Growers. He was intensely involved in trying to get a better price for durum wheat producers.

After that first meeting, the three of us quickly brought in Eugene Nicholas, a member of the North Dakota House of Representatives and an area farmer from Cando. He was an alumnus of the State university and a director of the Durum Triangle Industrial Park Corporation. He had played a key role in acquiring funding from the Bank of North Dakota for the Leonardo plant.

The fifth team member was Jack Dalrymple, a farmer from Casselton like former Gov. George Sinner. Dalrymple chaired the State House of Representatives Committee on Appropriations. Then-Gov. Sinner had earlier worked with him to recruit a Borden pasta plant to Casselton. Dalrymple's family farm was started in 1876, 13 years before statehood, by Oliver Dalrymple, Jack's great grandfather. It was one of the first bonanza farms in the State. Jack was a Yale alumnus and later became chairman of the cooperative.

**Feasibility Study**-The scope of work for a new feasibility study was written and the new budget was prepared. Spencer, Nicholas, Dalrymple, and Rice helped raise the funds from the ND Wheat Commission, Central Power Cooperative, and Baker Electric to match a research grant from the ND Agricultural Products Utilization Commission (AgPUC). Senechal, Jorgenson and Hale, a consulting firm from Danvers, Mass., was awarded that contract. Don Senechal, a principal of the firm, was a native of North Dakota, a State university graduate, and a research associate. His firm specialized in the food system and cooperatives.

**Steering Committee**-Members were selected to represent contributors to the study and representatives of U.S. Durum Growers, the ND Wheat Commission, AgPUC, Baker Electric, Central Power, the ND Department of Economic Development and Finance, and the ND Farmers Union. While previous studies

had indicated that a pasta plant could be economically viable in North Dakota, no consultant had ever explained the advantages of a farmer-owned processing cooperative. Once the substantial advantages were understood by the steering committee, enthusiasm built. Rice chaired the steering committee and I served as the principal advisor.

**Interim Board**-Once the steering committee decided to form a cooperative, it was dissolved and replaced with an interim board. Dalrymple was elected chairman and subsequently was named interim chief executive officer. Requests were prepared for proposed legal and accounting services. A Minot-based legal firm (Pringle and Herigstad) and a Fargo-based accounting and business planning firm (Eide Helmeke) were hired.

A grant proposal to AgPUC requested \$150,000 in organizational funds to be matched by contributions on a nickel-per-bushel basis from durum farmers. Armed with a \$300,000 organizational budget, the board authorized recruitment of a chief executive officer.

**The Search Committee**-Nicholas, Spencer, and Dalrymple contacted Tim Dodd who was operating a pasta plant in Missouri. He had been the head miller for the "Noodles by Leonardo" plant in Cando. Dodd accepted their offer and brought along his sales manager and engineer.

**The Campaign** -As the legal requirements were met and the business plan finished, the board made plans to launch the equity campaign. The plant was designed to use 3 million bushels of durum annually. The equity share price was set at \$3.85 per bushel. The price per share was determined by dividing the total equity needed (35 percent) by the number of shares.

The board felt that the cost per share appeared too high, so a deal was struck with the Bank of North Dakota to provide some of the financing on a subordinated basis to the St. Paul Bank for Cooperatives. The Bank of North Dakota required a personal commitment from producers (on a per-bushel basis) to cover any default. The bank also stipulated that all investors must have a minimum net worth of \$50,000 to join the cooperative. On that basis, the bank advanced the loan. The cooperative rented office space in Fargo and staffed it with Dodd and others who designed a campaign.

Once the meeting dates were announced, the statewide media began to interview individuals about their attitudes on the project. Leonard Gasparre and

other pasta producers expressed considerable doubt about the project. He was quoted as saying, "Farmers are too dumb to run a pasta plant, and besides, they have to take the winter off to go to Arizona." His remark enraged farmers who had been selling him durum at low prices. Although Gasparre later printed a full-page apology in the newspaper, the fire had been lit.

Chairman Dalrymple led the discussion and was backed up by Dodd and other key personnel as technical resources. It took 33 meetings with interested producers, sometimes three per day, before the drive reached striking range of the \$12.5 million equity needed to capitalize the plant. The board extended the deadline to accommodate the drive.

Communities competed to be named the site for the new plant. Many Carrington area farmers responded to a request by the local bank to increase their subscription agreements. The equity goal was met and Carrington was chosen for the plant site. More than 1,000 farmers invested \$12.5 million and agreed to be individually liable for the additional loan of several million dollars from the Bank of North Dakota. The loans were closed and the design and construction of the plant began.

Nearly 2 years after the initial exploratory meeting, ground was broken at Carrington on July 9, 1992. The first dividends were paid to durum growers in November 1995.

Since then, the cooperative has sold an additional 3 million shares at \$5 each to finance doubling the commercial milling capacity. Another pasta line was added. The extra bank loan has been retired from earnings, and shares originally purchased at \$3.85 after a two-for-one split are selling at \$14 to \$15 per share. Dakota Growers recently purchased two pasta plants in Minnesota, making this cooperative the second largest pasta operation in the United States.

### 'Co-op Fever?'

Word of the Dakota Growers' success spread like wildfire across North Dakota. The idea of new-generation cooperatives with their "closed" membership and equity requirements made sense to farmers. Even though grower contracts required members to deliver products, interest grew.

Bison producers were the next cooperative out of the box. They followed the same organizational steps as the durum growers. Although disorganized at first, they formed an association to discuss how they could work together. A new feasibility study was designed.

A previous study proposed processing other specialty animals in the same facility to provide the needed economy of size to pay for the plant.

The steering committee meetings were often highly charged. These were rugged men and women who had become proficient in handling dangerous animals. Once the feasibility study was completed, the committee was dissolved and an interim board was organized. The cooperative selected Attorney Larry Baer of Cando as its legal advisor. He and the bison producers led the equity drive.

Ken Throlson, president of the cooperative, was hesitant about being the main speaker during the grower meetings. He asked other directors to present the business plan. Using a series of overhead projections, the directors explained their plan to build a slaughter plant and market bison meat.

At one point during the discussion, director Mark Ivesdal of New Rockford pretended to have a fever, mopped his brow with a red kerchief, and asked, "Have you got buffalo fever?" The "fever" he referred to was driven by the bison growers' own little secret. There was money to be made in raising and selling these animals.

Don Senechal was again used as a consultant. He projected that bison growers, who invested in the cooperative, would receive a **47-percent** return on their equity, the highest he had ever seen. Senechal felt the real return would be much higher.

In 28 days, the bison growers raised \$1 million in equity subscriptions. The Bank of North Dakota began making AgPACE loans to farmers wanting to buy bison. This program provided a subsidized interest rate to farmers who would start an "on-farm, non-farm enterprise" or "non-traditional agriculture." This included exotic animals, specialty crops, and others.

The bank at New Rockford was aggressively originating these loans. The bison cooperative was so successful in attracting new producers that bison lost the designation as non-traditional.

Meanwhile, Sarah Vogel, former North Dakota agriculture commissioner, joined U.S. Sen. Kent Conrad at an annual event in January called the "Marketplace of Ideas." Vogel noted the emerging cooperatives and the vibrant interest in forming new ones and began referring to the phenomenon as "Co-op Fever." The media picked up the phrase and in 1993, the Associated Press listed "Co-op Fever" as one of the top 10 stories of the year. Vogel and Conrad subsequently added "Co-op Night" to the marketplace conference agenda.



Jack Dalrymple received the Republican nomination for the U.S. Senate seat held by Conrad. Dalrymple's television ads noted his involvement in the formation of Dakota Growers Pasta. He was also featured in an article in *Forbes* magazine called "Getting the Middle Man's Share." Both candidates for the U.S. Senate were overtly supporters of cooperative development of value-added agriculture. Conrad was subsequently re-elected.

The city of Renville, Minn., was becoming a hotbed of new value-added cooperatives with the creation of Val-Ad-Co, United Mills, and Midwest Investors of Renville. Print media continued to give good exposure to cooperatives.

Minnesota Corn Processors made news by expanding to Columbus, Nebr. In 1994, Lee Egerstrom, a writer for the *St. Paul Pioneer Press*, produced a book titled "Make No Small Plans: A Cooperative Revival for Rural America." Egerstrom listed 50 new or emerging cooperatives, 20 of them from North Dakota.

The *Fargo Forum* produced a six-page special report in June 1995 called "Processing on the Prairie." It sought to identify the causes of "Co-op Fever." That November, *The Indianapolis Star* carried a two-page story on "Farmers Helping Farmers" which advocated value-added cooperatives and featured comments by George Sinner, former North Dakota governor who was then the government relations director for American Crystal Sugar.

USDA's bimonthly magazine, *Rural Cooperatives*, carried a cover story in August 1995 titled "Expounding the Co-op Gospel in North Dakota." The cover photo featured Ken Throlson of the bison producers. In September, *Rural Electrification* magazine published by the National Rural Electric Cooperative Association promoted our development work in a cover story titled "Brainstorming for Co-ops."

## New ND Cooperatives

The North Dakota secretary of state's office listed 474 active cooperatives and mutual aid associations in the State as of December 1997. The earliest recorded date of a cooperative filing that is still active was in 1911. Based on the 86-year period, an average of 5.5 cooperatives were filed each year. (The 5.5 average understates cooperative formation because the total of 474 in 1997 does not include those that have merged or liquidated.)

From 1990 through 1997, a total of 67 cooperatives were formed, or an average of 8.3 per year. More important, however, was the type being formed. The

term "Co-op Fever" applies more so to the value-added or processing cooperatives than to traditional marketing or supply cooperatives. Of the 67 new cooperatives in the past 5 years, 26 added value to agricultural products (table 1).

These cooperatives ranged in size from 15 members to more than 2,000 and in dollar value from several hundred thousand to \$261 million, the cost of a corn wet milling plant built by Golden Growers Cooperative in association with Pro-Gold, a limited liability company. These cooperatives serve geographical areas that range in size from as small as several counties to as large as the massive region of Northern Plains Premium Beef whose equity drive covered six U.S. States and two Canadian provinces.

Pharmacists in North Dakota considered forming a cooperative to buy directly from pharmaceutical companies. Electronic and machine parts manufacturers wanted to form a cooperative to build airplanes.

## Why 'Co-op Fever?'

Why, at this point in history, are value-added cooperatives so popular in North Dakota? Author M. Scott Peck in his book, "In Search of Stones," claims that all causes are over-determined. The causes listed here are also likely to be over-determined, but here are some guesses:

Programs and Supporting Institutions-Without the commitment of the rural electric and telephone cooperatives to economic growth, I could not have served as a facilitator or catalyst. The Ag Products Utilization Commission (AgPUC) was critical in financing new feasibility studies and cooperative startups. The Bank of North Dakota's willingness to make loans to farmers interested in investing in value-added cooperatives was also important. The St. Paul Bank for Cooperatives was the first choice for financing by many of the new cooperatives because of the expertise of its loan officers, especially Lee Estenson, and its president, Dennis Johnson. The bank's leadership was a major factor in "Co-op Fever."

The Senechal, Jorgenson, and Hale firm of Danvers, Mass., was the major player among numerous consultants involved in studying opportunities. Their understanding of the marketplace and cooperatives made it possible to spot narrow opportunities and exploit them for farmers' benefit. They are unabashed believers in the economic viability of producer-owned cooperatives. They frequently served as a bridge between new and existing cooperatives.

Table I-New-generation cooperative formation with headquarters in ND, 1990-1997.

Name/Year	City	Status	Product
Farmers Union Feedlot Assn.-1997	Jamestown	planning	fed cattle
North Dakota Pigs Co-op-I 997	Fargo	construction	hogs
Superior Pork Producers -1996	Elgin	inactive	hogs
United Spring/Wheat Proc. -1996	Fargo	launching	frozen bread
Bloomfield Produce -1996	Hillsboro	inactive	carrots
Dakota Prairie Beef -1996	Gascoyne	equity	fed cattle
Western Dakota Pork —1 995	Scranton	operating	slaughter hogs
Iso-Straw Cooperative —1995	Finley	planning	particle board
Northern Produce -1995	Hatton	reorganizing	carrots
Great Northern Garlic Grow. -1995	Minot	planning	garlic
Northern Plains Prem. -1995	Mandan	equity formation	beef
Central Dakota Cattle -1994	Maddock	operating	feeder calves
Farmers Choice Pasta -1994	Leeds	operating	pasta
Golden Growers Co-op -1994	Fargo	operating	corn syrup
Dak.Aquaculture Hatchery -1994	Carrington	dissolved	fingerlings
North Amer. Fish Farmers -1994	Binford	operational	fish
Imperial Organic Processing -1994	Napoleon	inactive	flour
Dakota Dairy Specialties -1994	Hebron	operating	cheese
Walton Bean Growers -1994	Englevale	reorganizing	edible beans
Clifco New Energy -1994	Clifford	inactive	ethanol
Heart of the Valley -1994	Mayville	operating	bean products
No. Plains Organic Grains -1993	Steele	inactive	organic
Quality Pork -1991	Crosby	operating	feeder pigs
North Central Cattle Feeders -1993	New Town	operating	feeder calves
Dakota Rabbit Co-op -1993	Center	dissolved	broiler rabbit
Central Dakota Growers -1993	Jamestown	planning	potato storage
North American Bison -1992	New Rockford	expanding	bison meat
Dakota Growers Pasta -1991	Carrington	expanding	pasta

Legal firms have also risen to the task of understanding new-generation cooperatives. Initially, only three firms in North Dakota had expertise in this area. Now, perhaps a dozen firms are qualified to provide legal counsel.

Until this point, the Eide Helmeke accounting firm has dominated business planning work due to its familiarity with cooperative accounting and tax issues. However, other firms and business planners are attempting to enter the business as service providers. The learning experience from the startup of one cooperative is valuable in starting a second. Joe Talley, a principal with Helmeke, provided business planning services to both Dakota Growers Pasta and Golden Growers. He was later hired as Pro-Gold's chief financial officer.

**State Strategic Plan**—The State spent 4 years developing a strategic plan for economic growth. In 1986, the Greater North Dakota Association contracted with David Birch, small business expert with the Massachusetts Institute of Technology (MIT), to analyze the North Dakota economy and make recommendations. Later, an effort was launched to create a common economic direction for North Dakota called "Vision 2000."

Numerous public discussion sessions were held. Interviews were conducted by consultants from SRI International (formerly Stanford Research Institute). SRI distributed reports that described how the State's economy could be improved. Its report called for a four-sector economy made up of advanced agriculture and food processing, energy byproduct development, export services and tourism, and advanced manufacturing.

In late 1989, North Dakota received a grant from several foundations to put structure to the economic development process. In 1990, the State used these dollars to participate in what was known as an "Ag Academy," led by the Council of State Policy and Planning Agencies.

Dennis Hill, executive vice president of the North Dakota Association of Rural Electric and Telephone Cooperatives, had been a member of the "Vision 2000" committee while I was the State's economic development director. We were joined by several legislative and farm group leaders, as well as the director of North Dakota State University Extension Service and the president of the Bank of North Dakota as the State's team at the academy. Two week-long planning sessions were conducted and resulted in a legislative strategy for economic growth.

'Growing North Dakota'-Charles Fleming, then-Gov. Sinner's chief of staff, chaired the delegation and later the legislative campaign. After leaving the State government in 1990, I contracted with the governor's office to prepare the legislative draft that went to the legislative council and subsequently became Senate Bill No. 2058.

Then-Gov. Sinner appointed a committee of 34 to carry the bill through the 1991 legislature. This broad-based committee of development officials, administrators, and users of development services were successful in getting the State legislature in 1991 to pass "Growing North Dakota" legislation which dedicated \$22 million from the profits of the Bank of North Dakota to economic development.

The legislation created an equity capital corporation and a science and technology corporation, provided additional monies to AgPUC, and funded AgPACE (the interest buydown program for farm-based enterprises or non-traditional products) and PACE (Partnership for Assisting Community Expansion), which provided matching funds to buy down interest rates for primary sector businesses. Expectations were high that summer that North Dakota would become an economic development power. Many developers felt the State had generated tools to encourage economic growth.

The greatest contribution of this legislation to "Co-op Fever" may have been the creation of expectancy-some projects on the drawing boards could now be moved forward. The additional funds made available to AgPUC were immediately used by Dakota Growers Pasta. Other programs played less well-defined roles. The PACE program became popular with manufacturing enterprises because of the immediate savings associated with interest subsidies. Also, the equity corporation (known as the Future Fund) participated in several of the new cooperative processing facilities by providing debt capital.

David Birch from MIT returned to North Dakota 11 years later in November of 1997 and did a status report on the State's economy. At the Greater North Dakota Association's annual business conference, he lauded the State and said, "you have succeeded beyond anyone's imagination." Statewide unemployment in November 1997 was 1.8 percent, manufacturing jobs were growing, and personal incomes were rising. In general, the State's economy was solidly headed in the right direction.

That day's issue of the *Fargo Forum* announced that Dakota Growers Pasta had declared a dividend of \$1.53 per share on those original \$3.85 shares and that

\$1 would be paid in cash. Many reasons account for economic growth, but cooperative development and “Growing North Dakota” are major factors.

**Zero Interest Loans**—Even before “Growing North Dakota” legislation was passed, the telephone and electric cooperatives were given the authority to make lo-year, interest-free loans to rural enterprises. The cooperative was the initial borrower and reloaned the money to sub-recipients. North Dakota cooperatives aggressively used these programs. While not all of the approved projects actually drew down funds, it is still useful to understand the sweep of the activity that occurred between September 1989 and April 1997 (table 2).

This program also stimulated enthusiasm for new projects. While limited to \$400,000 per project and rarely the sole source of financing, the availability of the program encouraged farmers to talk about opportunities cooperatively. (See listing of these projects at the end of this report.)

**Economic Conditions** — When discussion began on a cooperative pasta plant, durum was selling for \$2.20 per bushel. At this price, farmers believed they were not even returning their cost of production. Adding value to durum by making it into pasta was simply a way to improve net farm earnings. Necessity became the mother of invention.

Milk prices and market security drove dairy farmers in the Hebron area to dissolve their existing dairy cooperative and form a new “closed” one to build a cheese plant. By adding value to milk, producers increased net earnings on the farm.

The corn wet-milling plant was organized to help sugar beet cooperatives broaden their product mix sold through United Sugars, their marketing cooperative. Corn sweeteners were intended to help them become even more competitive in the sucrose market. Corn growers, on the other hand, were receiving the lowest price per bushel for corn at Wahpeton, N.D., as any location in the country.

Through a wet-milling plant, growers believed they could add up to 90 cents per bushel to the value of corn grown in the region. Corn prices reached an all-time high of \$5 per bushel while the plant was under construction and corn sweetener prices plummeted with the entry of new processing capacity. The cooperatively owned plant at Wahpeton, along with two operated by Minnesota Corn Processors, are still in operation while other industry plants have closed.

Low cattle prices encouraged ranchers to consider a cooperative slaughter plant in the Northern Plains. Trying to link directly with the retail market, ranchers believed they could reduce the dramatic peaks and valleys in the fat cattle market, provide a more dependable marketplace, and generate a more reliable supply of quality product.

The economic conditions of the 1980s and the early 1900s are perhaps the most parallel of reasons for the Progressive Movement in American politics and the development of “Co-op Fever.” North Dakota State Sen. Frank Wenstrom observed, “I can remember when I was a little guy and dad went up to Fessenden, N.D., and borrowed some money from one of the banks. He borrowed \$100 and they charged him \$20 for making the loan and they charged him 12 percent interest. These people were so tired of getting that kind of treatment. That’s one of the reasons that we have a Bank of North Dakota. Just because the bankers of that day....gouged them...So he went out of there with \$68...things like that brought on the Non-Partisan League (NPL) (Junker).

**New Generation of Farmers**—The organizing members of many of these new “value-added” cooperatives are college educated, aggressive, and young. They are not intimidated by sophisticated marketing and processing plans. Many of these farmer-investors already operate profitable farms. To them, investing in a processing cooperative is simply an extension of their current enterprise.

In response to Gasparre’s comment about farmers being too dumb to run a pasta plant, Dalrymple replied that “Farmers are smarter than you think!” Watching Pat Benedict, chairman of Golden Growers, explain the economic opportunity to mill corn into high- fructose corn syrup reinforced Dalrymple’s statement.

A second parallel between the progressive movement and “Co-op Fever” is the reaction by farmers to men like Gasparre and Treadway Twitchell. Twitchell allegedly told farmers in the 1915 legislative session that the running of the State was none of their business. He jocularly advised them to “Go home and slop the hogs!” (Junker, p. 333)

Even though Twitchell later denied having said the remark and Gasparre printed a full-page retraction in the State’s major newspapers, their insinuation that farmers lacked the drive or the intelligence to manage their own affairs served as a catalyst for action in both 1915 and 1990. In other times and in other generations, farmers may have agreed with them both.

Table 2—**Zero-interest loan awards made by North Dakota Rural Electric and Rural Telephone Cooperatives, 1989-97**

Date	Cooperative	Purpose/town	Amount
			<i>Dollars</i>
<b>1989</b>			
September	West Plains Electric	Research on heat pumps, Dickinson	50,000
<b>1990</b>			
February	Oliver-Mercer Electric	Clay target mfg. co., Hazen	100,000
June	Capital Electric	U.S. Health Care bldg., Bismarck	100,000
September	Cass County	Electric business incubator, Fargo	100,000
December	Nodak Electric	Cabinetmaker expansion, Fordville	14,000
<b>1991</b>			
April	Mor-Gran-Sou Electric	Interstate Western Works, Mandan	20,000
April	Williams Electric	Tomato greenhouse, Williston	100,000
April	North Central Electric	Uniband data entry, Belcourt	100,000
April	Mor-Gran-Sou Electric	Prairie Learning Ctr., Raleigh	100,000
August	Cavalier Electric	Frost Fire Ski Resort, Walhalla	100,000
October	R.S.R. Electric	Minn-Dak Yeast, Wahpeton	100,000
October	McLean Electric	Rural water syst. McLean Co.	100,000
October	James Valley Electric	Super 8 Motel, Edgeley	100,000
October	McKenzie Electric	Killdeer Mountain Mfg., Killdeer	100,000
<b>1992</b>			
July	Cavalier Rural Electric	PMU Ranch, Sarles	100,000
July	Consolidated Telephone	ADE, Regent	50,000
September	Tri-County Electric	Westward Products, Cprstown	100,000
September	Sheyenne Valley Electric	Westward Products	100,000
October	West Plains Electric	Baker Boy, Dickinson	100,000
October	Tri-County Electric	Dakota Growers Pasta Co., Carrington	100,000
October	Dak. Central Telephone	Dakota Growers Pasta Co.	100,000
November	North Central Electric	City of Bottineau	100,000
<b>1993</b>			
January	KEM Electric	Wishek Steel & Mfg., Wishek	50,000
April	North Central Electric	Turtle Mtn.Corp., Dunseith	300,000
July	Capital Electric	McClusky Kirschman Mfg. McClusky	240,000
July	Dak. Central Telephone	N. Amer. Bison Co-op, New Rockford	100,000
July	Tri-County Electric	N.Amer. Bison Co-op	100,000
<b>1994</b>			
September	KEM Electric	Potato Warehouse, Dawson	250,000
December	West Plains Electric	Waste company, Dickinson	100,000
December	Baker Electric	Leeds Seed House, Leeds	100,000
<b>1995</b>			
March	West Plains Electric	Steffes ETS, Dickinson	50,000
March	Baker Electric	Integra Castings, Cando	400,000
March	Baker Electric	Towner County Med. Ctr.,Cando	400,000

Table 2 (continued)- **Zero-interest loan awards made by North Dakota Rural Electric and Rural Telephone Cooperatives, 1989-97**

Date	Cooperative	Purpose/town	Amount
			<i>Dollars</i>
March	North Central Electric	Tire recycling, Belcourt	400,000
March	Cavalier Electric	Rural water system, Edinburg	400,000
June	West Plains Electric	Steffes and Sons, Dickinson	400,000
September	Verendrye Electric Co-op	Northwest Molding, Minot	100,000
1996			
July	Oliver-Mercer Electric	Noble Games, Hazen	400,000
July	KEM	Strasburg Farmers Elev., Strasburg	350,000
<b>1997</b>			
January	Northern Plains Electric	AgGrow Oils, LLC, Carrington	400,000
January	West Plains Electric	Baker Boy Bake Shop, Dickinson	400,000
January	Mountrail-Williams Elec	New Products Mktg Corp., Williston	200,000
April	North Central Electric	Salmonson Resid. Care, Bottineau	400,000
Total	43 Projects		7,474,000

People—Those with the right experience and skills appeared in the right place and time. Benedict, later the chairman of Golden Growers, was featured in the cover story of *Time* magazine in 1972 for adapting the computer to his farm operation. He was an early organizer of American Crystal Sugar Company and served for 12 years as its first chairman of the board. He also serves on the boards of banks, medical institutions, and other organizations. He chaired the steering committee of corn growers looking at the feasibility of building a corn wet-milling plant.

Several other farmers like Dalrymple, Nicholas, and Warner had similar leadership experiences. Many of us knew each other and understood the opportunities. During the 1990s, North Dakota has had a crop of bright farmers who have learned to seize economic opportunity through cooperative action. The causes of “Co-op Fever” are multiple, but the courage, intelligence, and willingness of farmers in the Upper Plains to take a risk for reasonable returns is perhaps the single greatest reason for this phenomenon.

## **Mechanics of Cooperative Development**

Cooperative development as defined here is not an end in itself, but rather a rural development strategy that seeks to achieve local ownership of enterprises, especially value-added agricultural processing facili-

ties. These goals of rural development (new income for rural residents, new jobs in rural areas, expanded markets, and new and diversified agricultural products) are achieved because of the ability of cooperatives to create economies of size and raise equity to capitalize the business.

The process of cooperative development, apart from its unique features, is similar to developing other new businesses. The simplified steps involve:

1. identifying a common interest held by individuals willing to champion the project,
2. studying the feasibility of the idea,
3. converting the feasibility study to a business plan,
4. conducting the equity drive, and
5. launching the business.

The tasks involved in each of these steps are described in some detail so that the professional developer will have some idea of what to expect. Remember that this process is sequential. Taking these steps out of order often creates serious problems. The pressure to skip steps or take easier or faster routes to the successful completion of the project is intense.

A professional developer must begin each project with the end in mind. The process will not only severely challenge your skills, but also your commitment to professional standards. Here are some standards or principles that have been adopted by professional cooperative development practitioners. They should be shared with steering committee members, interim

directors, and the producer groups to keep the development process within the bounds of ethical and professional behavior.

### **Madison Principles**

In 1994, cooperative developers meeting in Madison, Wis., adopted these principles as guides to professional behavior:

1. Individuals providing technical assistance should subscribe to the highest level of ethics and declare any conflict of interest, real or perceived, so that they can be a credible source of objective feedback and an articulate advocate of the project as needed
2. Cooperatives are development tools and should promote both social empowerment and economic goals.
3. Applied appropriately, cooperatives have value to all population groups and for all businesses and services in the public and private sectors.
4. Each cooperative responds to its unique economic, social and cultural context. Consequently, each cooperative is different.
5. There are essential steps that must be taken in a critical path to succeed.
6. An enthusiastic group of local, trustworthy leaders is a prerequisite for providing technical assistance. The effective cooperative development practitioner nurtures that leadership by helping them shape a vision that will unite members and provide ongoing training.
7. Cooperatives only work when they are market driven. The development practitioner seeks to ensure that accurate market projections precede other development steps.
8. Member control through a democratic process is essential for success.
9. Success also depends on the commitment of the member's time and financial resources.
10. There must be tangible economic benefits for members.
11. The cooperative's products and services must generate sufficient revenue so that the effort can be financially self-sustaining. Provisions must be made to share any surplus equitably.
12. Market opportunities exist throughout the world. Cooperatives and market development should transcend national boundaries.
13. Successful, established cooperatives should help emerging ones to develop. New and emerging cooperatives should be encouraged to communicate with and learn from successful ones.

These principles should be used to guide behavior in succeeding steps. They are meant to guide both the steering committee and the professional developer.

### **Finding the Project Champion**

The need for professional principles is easily illustrated in this first task of cooperative development. Much has been said already about the importance of project champions or cooperative leaders. The sixth principle highlights quality leadership as a prerequisite for success. Making the judgement about the quality of that champion is extremely difficult for the cooperative development practitioner.

In two cases, the originator of the idea and the early stage project champion was replaced as the leader by someone else. In one case, the early organizer and president of the interim board was asked to leave the board and was barred from joining the cooperative.

The development practitioner may need to inform the interim board of observed problems in leadership but must allow the board to take appropriate action to fix them. This task is difficult and requires great sensitivity, yet toughness. Many interim boards don't like to police themselves or appear judgmental. In the early stages of cooperative development, it is often difficult to recruit directors. It is painful to replace or demote members who have been willing to serve but because of personality or reputation hurt future efforts.

It may be tempting to let the democratic process take care of the problem in the election of permanent directors. But, if the leadership problem is too great, there may never be a permanent board because the equity drive failed.

### **Litmus Tests**

Project champions come to lead the organizational efforts in a variety of ways. Sometimes they emerge from the beginning as individuals knowledgeable and willing to lead (Ken Throlson of the North American Bison Cooperative). Others are recruited, such as Pat Benedict of the Golden Growers Cooperative. As a professional developer, I use several criteria in evaluating if an individual is acceptable as the project leader:

1. *Credibility*-Is the individual personally credible in his/her neighborhood? They need not be the biggest farmer or the most active in commodity associations, but they must be respected for their judgement. Avoid individuals who have tried every

new idea that has come around and are suckers for anything new. I look for people who finish what they start and can take a long-term view.

2. *Financial Stability*-Is the individual capable of keeping his/her house in order? Producers who have failed before (especially if they have gone through personal bankruptcy) usually lack the credibility with other producers and lenders to lead the project. They must be able to devote time away from their personal business to help develop the cooperative. This criterion is extremely limiting because many producers lack the time it takes to do the work without jeopardizing their individual operations. I once worked with a cooperative whose interim board chair wanted to use organizational funds to buy clothes. Her argument was that she would make a better impression on investors if she could afford to dress well.

3. *Basic Knowledge of the Industry*-Is the individual familiar with the industry in a comprehensive way? Most value-added cooperatives are also vertically integrated. The project champion must have a basic understanding of the entire industry-from the first steps of production through processing to marketing to the final consumer. This is a tall order and can't be easily filled. The "Madison Principles" are critical at this stage of leadership selection.

Often, producers become enamored of a manufacturing technology or an available building and want to quickly close the deal to own the facility or the equipment. A true project champion must lead the group through a market analysis prior to analyzing processing facility and equipment needs. If an individual can't be found who has this basic understanding of the industry, then I look for a person who is willing to learn.

4. *Willingness To Accept the Servant Leadership Role*—The project champion is often uncompensated. They will frequently be criticized, often unfairly, and sometimes insulted. Thin-skinned or quick-tempered people often do not last in the pressure-cooker environment of creating a new cooperative enterprise. I look for a project champion who has balance in her/his life. They must have patience, people skills, a good sense of humor, and a sense of what is ridiculous.

5. *A Developer, Not a Promoter* -This is development work, not promotion. Promotion may get column inches in the local paper and a 30-second spot on the 6 o'clock news, but it won't build a financially viable company. While enthusiasm is important, it can't replace critical common sense and solid business judgement.

While this task of accessing leadership skills falls initially to the professional development practitioner, a word of caution is advised. Don't operate behind the back of the board member or leader. Direct conversation with honest expression of concern is the best policy. Seeking advice from other cooperatives in the area is also helpful. In some cases, these individuals have been so dedicated to making the emerging cooperative successful that once they have been made aware of the problems, they resign for the good of the cause and continue to be supportive.

### **Steering Committee**

Once identified, the project champion and the professional developer usually work together to fill in the initial project steering committee. It will work with the professional developer in identifying critical questions to be answered. They will build a budget and a schedule of tasks necessary to answer these questions.

The steering committee will handle the following tasks:

1. Identify critical questions to be answered before the project can proceed.
2. Design a feasibility study that answers those questions.
3. Communicate with other interested producers and potential members.
4. Raise money to pay for the feasibility study.
5. Recruit or provide for financial accounting and legal services.
6. Issue requests for proposals and select appropriate consultants.
7. Participate in the feasibility study process and give direction to consultants.
8. Depending on the outcome of the feasibility study, wrap up the study and communicate negative findings or convert the steering committee to an interim board to begin developing a business plan.

The steering committee is an informal organization that usually consists of a majority of producers but includes representatives of funding organizations and commodity associations. Dakota Growers Pasta Cooperative's interim board of directors evolved from a steering committee that included representatives



from AgPUC, ND Farmers Union, rural electric cooperatives, the State economic development office, and the ND Wheat Commission.

The development professional and the steering committee chairperson usually draft a proposed budget and timeframe and set meeting and task completion dates. The budget for this phase is driven by the expected cost of the feasibility consultant and meeting room, plus per diem and travel expenses of the committee members.

To get an estimate of the probable cost of a feasibility study, I fax a copy of the proposed call for proposals to two or three consultants, average their estimates, and prepare a formal request for proposals.

If a particular industry has been studied extensively in the past, only updates may be necessary. Getting access to previous studies may require some cash payment or at least diplomacy by the steering committee chair or the professional developer. Sometimes a pre-feasibility study may determine if there is a need for a new study.

These preliminary studies are simply scans of the information already published. A consultant determines if a significant market may exist. Sometimes these studies are called environmental scans or a quick look at the industry to determine if further study is needed.

These studies can also redirect the original plans of the steering committee to more promising study targets. Pre-feasibility studies or scans should cost between \$1,000 and \$3,000 and take only two or three weeks to complete. This is usually ample time because the information is already published and simply needs to be organized.

Hiring the wrong consultant to do a pre-feasibility study can be costly and produce poor advice. If the consultant is new to the industry, it will take an inordinate amount of time to accumulate data. The firm will lack internal knowledge necessary to render good judgements.

The steering committee will frequently hear common complaints about its proposals to study the feasibility of an idea:

1. We know it's feasible. An existing company is already doing it.
2. Why do another feasibility study when one was done just a few years ago?
3. The market analysis has already been done by the equipment manufacturer.

4. Why should we hire a professional consultant when we have access to a graduate student who is doing a thesis on the subject?
5. Why not just hire a general manager who can do the study?
6. I suppose we have to do a feasibility study to convince the lenders, but I already know what we will find out!
7. Feasibility studies are a waste of time. We need to acquire the building, tie up the site, and bid on the equipment next week.

The steering committee often struggles to raise money for the feasibility study because of these complaints and the general misunderstanding about a study. It is critical that agricultural producers make the first contributions to support costs of the study. A formal agreement may not be necessary, but it should be apparent that there is enough interest in the outcome of the study to warrant its completion.

### **Surveying the Producers**

The steering committee needs to know how many potential members would support a project and if it's feasible. A random sample survey of eligible producers prior to completing a feasibility study can determine if that potential support exists. The most difficult task associated with polling producers is to draw a statistically valid sample.

Rural electric and telephone cooperatives, commodity groups, producer associations, and other organizations are sources for names and phone numbers. Building the master list of eligible producers takes time and costs money, but is a critical piece of planning. The track record of the professional polling company is equally important. Like the feasibility study consultant, the lowest-cost survey may not necessarily be the best buy.

Timing is important because producer opinion can have wide swings. Simply knowing that producers are serious about investing at the time of the study will not ensure that investment during the equity drive. This may especially be true if the equity drive is conducted 2 years after the study or was conducted during distractions such as blizzards, floods, or other natural or political events that would affect the producers of the products to be processed.

The steering committee designs the survey with the polling company. The company mails a letter to each person selected for the survey. The letter explains the exploratory effort to determine the feasibility of the proposed project and related details on the proposed cooperative. Those surveyed are told that someone

will call for a phone interview. The interview will determine the extent to which producers will need to invest and patronize the cooperative if the project is to be economically feasible.

Here are some sample questions used in the survey of durum wheat producers to determine their level of interest in an international pasta processing cooperative.

**Q2.** . . .we are interested in getting your ideas about a proposed grain processing cooperative in your region. First, as stated in the letter, the project...is a farmer-owned processing cooperative owned by durum producers. In general, do you think the idea of value-added cooperative, as you understand them is...

- (1) A great idea,
- (2) A good idea,
- (3) A bad idea, or
- (4) A terrible idea?
- (91) Not sure/No response

**Q 13.** Again, your answers will be kept confidential. We are not going to ask you to buy anything or make any commitment to purchase shares. However, if an independent feasibility study produces positive projections for a plant located in this region, how likely do you feel you would be to invest in a value-added processing plant...?

- 1 Very likely,
- 2 Somewhat likely,
- 3 Not very likely, or
- 4 Not at all likely?

**Q 18a.** For each share of equity stock you buy, you would be obligated to supply one bushel of durum per year. If one share of equity stock sold for \$4 (U.S.), how many shares . . .would (you) be willing and able to buy?

Number of shares: \_\_\_\_\_

**Q 18b.** At \$4 (U.S.) per share, would you be willing and able to buy...

	Yes	No	Not sure
a. Less than 1,000 shares	1	0	0
Skip to Q20			
b. 1,000 to 2,999 shares	2.	x	X
c. 3,000 to 4,999 shares	3	x	X

**Go to Q 19a**

d. 5,000 to 6,999 shares	4	X	X
e. 7,000 to 9,999 shares, or	5	x	X
f. More than 10,000 shares?	6	x	X

**Q 20.** As the letter stated, the proposed cooperative and processing plant will be owned by durum producers such as yourself who invest in adding value to the grain they grow. What questions would you need answered before you invested and encouraged others to invest in equity stock in the cooperative? What other questions would you want answered before investing?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Respondents were also asked how they felt about unique aspects of the project and characteristics of their business that related to the proposed cooperative.

**Feasibility**

The need for the Madison professional practices emanated from the experiences of the cooperative development practitioner. Frequently, consultants will be required to study the feasibility of an idea. Remaining objective while serving as an advocate for the project is always difficult. The Non Partisan League in North Dakota selected a goat as its mascot because it was the only animal that fights with its head.

The developer must help select the best consultants available, raise money to pay them, and often must police their work to ensure compliance with contractual agreements. In the past, feasibility studies were something needed to get financing. Now, feasibility studies are critical if members of the cooperative's interim board are to understand the opportunity.

The tasks of writing the scope of the study, recruiting competitive proposals, and assisting in the selection process often fall to the development professional. The lowest-cost consultant, friends of directors, or a study someone gives the cooperative are no substitute for quality work.

Successful cooperative development depends initially on a thorough study of the opportunity. A common mistake is to hire either an engineering firm or an equipment manufacturer to conduct a market feasibility study. Some large engineering firms have completely separated functions within one company and are capable of independent analysis. Others, more commonly, try to use their feasibility consulting practice as

a feeder for engineering work. Some may bid low on the feasibility study (even below cost) in hopes of making it up with a design and construction contract.

Equipment manufacturers are well known for their low-cost, quick-turnaround feasibility studies. In some cases, they have completed “one size fits all” studies that say using their equipment will result in a positive venture.

I don’t recommend using either engineering firms or equipment manufacturers as feasibility consultants. Although it’s often necessary to understand construction and equipment costs in determining if a project is feasible, engineers and equipment manufacturers should provide data on costs, but not on market analysis. In most cases, the cooperative development practitioner enforces this discipline. While using the necessary emotions to create change, the developer must still teach cooperatives to fight with their heads and balance emotion with reason.

A simple scoring sheet can be developed for the steering committee to determine which consultants to interview and how to rank the finalists. Here’s an example:

Firm Name: \_\_\_\_\_

Evaluation criteria	Points awarded
1. Previous experience in directly related work	(0-30) _____
2. Qualification of principal researchers	(0-20) _____
3. Reasonableness of costs	(0-15) _____
4. Proposed interaction with steering committee	(0-10) _____
5. Verbal presentation / communication skills	(0-15) _____
6. Miscellaneous/intangible	(0-10) _____
7. Total score	100 _____

### Business Planning

A second task of the developer is to help the interim board complete its business plan. The professional principles are never more challenging. Many new directors are unfamiliar with operating principles of cooperatives.

Because these are closed cooperatives that require equity investment much like a corporation, directors can easily lose sight of their fiduciary responsibility to other members who may invest. Steering the board away from sweetheart deals with each other or from

using knowledge gained through work on the cooperative board for private gain is sometimes difficult. The interim board may often feel that it has sacrificed enough just to build this cooperative and therefore is entitled to some benefits not available to members who join later.

How the cooperative will operate regarding conflict of interests and prohibitions against directors using cooperative opportunities for personal gain can be addressed in operating policies or bylaws. If the facilitator can keep the professional business planners on task, the director decisions and a good plan of action agreed to and recorded, the bylaws and operating procedures are not difficult to develop.

It is generally a mistake to develop operating procedures and bylaws in the absence of a business plan. In some cases, interim boards may be tempted to copy another cooperative’s operating documents. However, the developer will hold the interim board’s “feet to the fire” to write its own business plan. It will save the cooperative time and legal fees in the long run by exercising this discipline.

In the business planning process, directors actually confront each other about their expectations of this cooperative and the allowable and expected behavior of directors. It helps to have a director who has served on another new-generation cooperative board explain how it handled these issues.

The business planning effort includes a search for information on the size of the market, prices, processes, deciding about strategy, and estimating returns on investment. The developer and interim board often will encounter a perplexing problem. Who should you believe? Consulting firms, existing cooperatives, and competing firms, and other development consultants may offer conflicting advice. The cooperative development practitioner seldom has a captive client group.

Advice and coaching are often ignored or disregarded, even from the longest tenured and most successful cooperative development advisors. I often ask the steering committee to formally accept me as their “official” advisor and coach in this effort. I seldom agree to share my advisory role with another because multiple advisors create and destroy accountability.

Sometimes the development practitioner may be asked to serve on the steering committee as a voting member or play a role other than advisor. It may be useful to do so even if your views are in the minority. Just listening is important, but when it comes to very bad projects, I recommend just running away.

The developer must realize there is no shortage of advisors available to suggest alternative approaches

or less painful commitment levels. It is up to the directors to learn the difference between bad and good advice.

It's easy to confuse the roles of the advisor or consultant with those of the cooperative's directors and employees. While advisors and consultants teach and coach, all the players must learn together. An uneven or out-of-balance learning environment often occurs when completing the business plan. Directors may become individually smart but corporately stupid.

This phenomenon is discussed in depth in Peter Senge's *The Fifth Discipline*. In my experience, the uneven learning occurs because of natural specialization and focus by directors. Some may want to understand the market and marketing strategy while others are more focused on process technology.

As the pressure to "get it right" develops, these individuals will learn quickly a particular segment of the business plan. The problem arises when advocacy for a business plan segment, as all-important, begins to blur the entire vision of the cooperative and the main objective goes out of focus. Team learning with systems thinking is required. Team learning on a board is much like a basketball team. Individuals have different talents, but play better as a team than just as individuals. Team learning occurs when inquiry replaces advocacy-asking rather than defending allows other directors and staff to learn and accept and eventually depend on someone else's thinking. This leads to a more effective use of talent in building the business plan.

An accounting firm can often help write the business plan. But finding qualified firms can be a challenge. The Helmeke firm worked for both the Dakota Growers Pasta Company and North Plains Premium Beef Cooperative (NPPB). Even though the accountant's expertise may not be in planning, both the cooperative and accounting firm learn together.

Selecting an accounting firm is much like picking a feasibility study consultant. Some of the same criteria apply. Here's a score sheet example for evaluating an accountant:

Selection Criteria	Points
Previous experience in the industry	_____ 30
Qualifications of the personnel assigned	_____ 15
Billing structure (delayed billing, etc.)	_____ 15
Hourly rate	_____ 20
Availability to attend board meetings	_____ 10
Experience with co-op law and tax	_____ 15
Ability to work with engineers/attorneys	_____ 20
Experience with equity offerings	_____ 15

Even if a CEO is hired, an accounting firm is often necessary to provide the computing ability to analyze alternatives and write the plan. In the case of NPPB, Steve Noack was both the cooperative's attorney and chief financial officer. He held both law and accounting degrees. An accounting firm was hired to provide technical backup and the computing services the cooperative could not afford to purchase.

## Hiring the CEO

There is no set pattern on when to hire a manager / CEO. If the contribution drive has been completed successfully and the cooperative has several hundred thousand dollars available, it works well to hire a CEO to help complete the business plan. United Spring Wheat Processors used this strategy. Prior to completing a business plan, the cooperative hired an executive-search firm.

The cooperative eventually hired Gary Lee who had broad industry experience, especially in strategic planning. He led the planning effort, brought focus to the cooperative, and was a major presenter during the equity drive.

Dakota Growers Pasta Company hired Tim Dodd after the business plan had been completed, but before the equity drive. Dodd helped the cooperative fine-tune its plan, assisted in decisions, and answered technical questions during the equity drive. He also brought with him engineering and marketing personnel.

Hiring the CEO before completing the business plan, however, can be difficult. Numerous questions are unanswered, such as where to locate the office, where the CEO will live (if the office site hasn't been selected, so the CEO can avoid a double move), and the type of business the cooperative wants to conduct. What critical skills are needed-technical and processing, leadership and communication, or marketing and public relations?

Using an executive search firm is also expensive-about one-third of the employee's annual salary plus direct expenses. It is also difficult to find experienced candidates who will leave well-paying jobs on the bet that this new company will be successful.

NPPB hired me to serve as their interim CEO to pull together a team that could complete the business plan and the equity offering documents, and plan and execute the investment drive. At the same time, the board hired an executive search firm to find the permanent CEO. This process worked well. The new CEO was subsequently hired. However, the equity drive fell short of the necessary minimums and the permanent

CEO couldn't be continued. Dakota Growers Pasta conducted its own search and found Tim Dodd while United Spring Wheat Processors used a search firm and hired Gary Lee. Both techniques work.

Often overlooked in the search for a manager/CEO is the role of the board chair. The most important evaluation in CEO selection is not the qualities of the candidates, but rather the candidate's analysis of the board and particularly the chairperson. That chemistry between employer and employee must be right or the relationship won't be sustained.

The chair must have complete authority in supervising and directing the CEO. The chair must also be the single point of contact with the board. This can be extremely difficult to achieve in a new or emerging cooperative because until a CEO is hired, the directors must make administrative decisions.

The type of CEO hired is usually an accurate reflection of the board's management philosophy. It is often the first public display of that philosophy so the decision has public relations implications. It can be a confidence builder or a negative to potential investors. It demonstrates the cooperative's ability to attract high-quality talent and, therefore, the likelihood of a successful venture. In fact, the CEO's resume often becomes part of the disclosure document filed with security commissioners.

## Equity Drive

The equity drive provides the focus for the business planning effort. Will other farmers/ranchers invest scarce dollars in this venture? Do we have it right? In traditional business development, business plans were written by consultants for bankers. In cooperative development, the business plan is written by the interim board and the CEO (if already employed) for the member-investors.

Lenders can help develop the business plan (especially those from the St. Paul Bank or other cooperative-lending institutions), but they are not the final target. Decisions on minimum number of shares, delivery schedules, transportation allowances (to make all members equal to the processing plant), quality standards, marketing strategies, professional management, and many other issues are of critical importance to the farmer-investor.

It is extremely difficult to have the business plan perfect by the time an equity drive starts. Markets, interest rates, and commodity prices can all fluctuate. The cooperative development practitioner is a caretaker of the truth but must also realize that from time to

time, businesses must take unmitigated risks. The risk must be explained during the equity drive but not allowed to overwhelm the cause.

Ken Throlson, North American Bison Cooperative chairman, was asked by an Ohio economist how he could ask bison growers to invest in the cooperative when, during the equity drive, the anticipated return on investment was constantly changing as the planned equity level was surpassed. Throlson replied, "I learned long ago never to say whoa during a heavy pull."

Throlson's point is easily understood. After the best analysis has been done, farmers must decide-do they believe in the business plan concept and the credibility of the interim board or do they think it won't work and isn't worth the risk? Those conducting the equity drive must put that question squarely in front of the member-investors. The cooperative's board must clearly communicate the vision.

Peter Senge said, "A shared vision is not an idea. It is not even an important idea, such as freedom. Rather, it is a force in people's hearts, a force of impressive power. It may be inspired by an idea, but once it goes farther, if it is compelling enough to acquire the support of more than one person, then it is no longer an abstraction. It is palpable. People begin to see it as if it exists. Few, if any, forces in human affairs are as powerful as shared vision."

Holding, communicating, and nurturing the vision is the key task of the business planning process. It goes public in the equity drive.

Timing-As a general rule, with lots of exceptions, equity drives work best between the months of November and March. There are two reasons for this in agricultural communities. First, farmers are generally through with harvest and are not in the fields. This allows time to attend meetings, read about new ideas, and talk to each other. Second, they have some understanding of their own financial situation.

This time period allows farmers to include the cost of cooperative equity shares in their financial planning with agriculture lenders. In most cases, separate briefings will be held by cooperative organizers with ag lenders, prior to grower meetings. As in the case of Dakota Growers Pasta Company, some agricultural lenders actively encourage their borrowers to consider such investments.

Lenders also prefer to loan the funds quickly once an investment decision has been made to start the meter running on the interest rates. This puts pressure on the cooperative organizers to move the project

along quickly, because farmers and ranchers don't appreciate paying in dollars that are not immediately needed.

**Collections**-The technique for collecting equity dollars may take a variety of forms. A common way at grower meetings is to ask for some minimum contribution to indicate interest in purchasing shares. The fact that it is a contribution, not an investment, must be emphasized. Interim boards are required to prepare a prospectus and comply with Federal and State security laws if selling equity shares. The contribution is usually tied to the amount of money necessary to finish the business plan, write the prospectus, pay the organizational costs and finish the financing work.

The Dakota Growers asked for and received \$0.05 per share. Each share was roughly equal to one bushel of durum wheat. The bison growers asked for \$50 per animal and final equity shares sold at \$250 per animal. Golden Growers asked for \$0.10 per bushel of corn.

These contributions, as an indicator of interest, are dedicated to specific budgets. If minimum levels of producer commitment are not achieved, the project is frequently stopped and unused contributions are returned on a pro-rata basis. This ensures that there are no unsatisfied liabilities or additional payments in case the project does not go forward. Even though contributions may indicate an interest in purchasing shares, the interim board is under no obligation to issue shares unless minimum levels are met. A proposed bean processing cooperative determined that minimum levels were not met and a pro-rata portion of the contributions was returned.

If the minimum number of shares appear to be available from producer-investors, the attorneys and accountants prepare the prospectus and the interim board issues the shares with a final due date. In many cases, the board will reserve a special class of shares for early contributors at a lower price per share than the general share offering that recognizes their initial commitment.

Normally, the contributor may only buy the number of shares relative to the contribution unless additional shares are available. The option to purchase shares above the minimum in the business plan is often offered to contributors first and then to the general public comprised of eligible investors. These decisions involve security regulations and must be made only after consulting legal advice.

Interim boards are wise to keep the dates of the contribution, expression of interest, and final equity sale close together. Although there is not enough histo-

ry to build a general rule in this regard, it is commonly believed that the number of contributors who choose not to invest increases over time.

On smaller projects with a limited number of investors and much lower issuance cost, it may be better to issue the equity shares on an initial offering and skip the first step. This direct approach also works well when a cooperative is expanding and needs additional equity. In those cases, the membership can be surveyed. No contribution phase, with its related cost is needed to determine member interest or pay organizing costs.

Simplicity is important in a successful equity drive. While it is tempting to create numerous classes for various types of investors, complicated formulas make sales more difficult. It also complicates the issues if numerous alternatives are provided based on the number of shares sold.

The beef cooperative planned to build two plants if a higher number of shares were sold and one plant if sales were low. It tended to complicate the issue because it created the question of where the plants would be built and in what order.

Creating a low minimum with a strategy to just sell enough shares to get started often becomes a self-fulfilling prophecy. Expectations are lowered and excitement fritters away. The minimum number of shares sold should cover what's needed to operate a well-capitalized cooperative profitably. If that number is not achieved, North Dakota law requires the escrowed funds be returned.

A bean cooperative issued shares and sold more than half of the anticipated amount. The investment was returned and a new plan was drafted. The same strategy is being used by the NPPB. To some extent, it is like working on a highwire without a net. And if the equity drive fails, the cooperative may face dissolution. But safety net landings in tepid business plans rarely inspire courageous investment.

Equity shares in a cooperative may be exempt from both Federal and State security registration requirements, but the exemptions must be applied for well in advance of the equity drive. Competent legal help is required. The preparation of the prospectus requires communication with security commissioners and since securities are regulated both at the State and Federal level (and in Canada at the provincial level), and each State or province is different, it gets to be a lot of work.

The greatest fear of an emerging cooperative is to receive a cease and desist order from a security commission. This takes negotiations and patience while

officials decide whether or not the cooperative is a legitimate business that is worthy of investment. The more States in which you intend to operate, the more complicated the legal work. Some States will be very strict on *pre-selling*, that is saying anything in public about the project before a prospectus is in the hand of the potential investor.

**Media Management-** While farmers sell the business concept to other farmers, the media must be used to get the story and the sales events out to them.

In North Dakota, the largest circulation print media is the Rural Electric Cooperative/Rural Telephone Cooperative magazine. Advertising and editorial support in that magazine have been helpful. In addition, the North Dakota Association of Rural Electric Cooperatives helped prepare news releases and press packets and conduct press conferences. Advertising the grower meetings and encouraging producer attendance is the principal focus of the media effort. The hard sales work is conducted in the meetings themselves.

Frequently, the media become excited about equity drives as a major campaign story-with potential for winning or losing. The cooperative must attempt to manage media expectations-size of crowds, rate of investment, and likelihood of success. The meeting room should always be slightly smaller than the anticipated crowd would require. The interim board should be used as an investor catalyst at each meeting.

Those cooperatives that are able to acquire communication directors in advance of the equity drive believe they are important parts of the management teams. Experienced politicians can provide excellent media management skills. Non-producer politicians, however, are not recommended as attractions at grower meetings, because the politician, rather than the plans of the new cooperative, becomes the story.

The media must be treated fairly and honestly. There is no room for misrepresentation by cooperative organizers. As a general rule, farmers appreciate an understatement more than an overstatement. Common sense and honest treatment of all media questions are required. In most cases of cooperative development, there already is a David versus Goliath story unfolding. Allow the media to tell the story and provide valid information to help them explain it to their readers, viewers, and listeners.

## Launching the Cooperative

This task is rarely the job of the cooperative developer. As the cooperative emerges from its incubation period, hires management, and begins operating,

the developer may feel lost and abandoned. Successful cooperatives are formed to solve problems and seize economic opportunities, not to promote the professional developer.

The cooperative now hires the general manager and no longer needs the developer. In some cases, the developer may help recruit CEO or manager candidates or may be available for wrapup consultation to finish contracts with business planners, consultants, and the like. A typical concluding act by the developer is to deliver boxes of records (minutes, financial statement, feasibility studies, and business planning material) to the cooperative's new office. It's a nice feeling.

## Timing and Budgets

Every task takes longer and costs more than you think it should! The equity drive controls other schedules and is often awkward to plan effectively. Many existing cooperatives have annual meetings in either June or December. From past experience, the months of January, February, or March work best for equity drives. There are certainly conflicts among commodity groups within those months (cattle producers may be calving and sheep producers may be lambing) and winter months can be a severe challenge. But, other times of the year appear to have worse conflicts (spring planting, haying, or harvesting).

If the equity drive is to begin as soon as possible in January, for instance, the offering circular must be prepared and at the printer by the end of December. In turn, that means the business plan must be completed by late October. But the business planning process can't start until the producers can spend days together. So, the only time left to plan the business may occur in split sessions such as late June through the middle of July and then again after harvest in October.

Working backwards, that means that the feasibility study must be completed in May or June. Studies take 90 to 120 days to complete, so you will need to start by March or April. A hypothetical schedule and budget are provided in table 3.

If the CEO can be hired to help prepare the business plan, there will be extra costs related to salary and expenses (easily \$10,000 per month times 6 months). An in-house engineer can save hundreds of thousands of dollars in final construction cost. A marketing director can earn revenue much faster if hired during the design stage of the cooperative. However, if these choices are made and paid during the development stage, costs can escalate. Costs are also based on time

Table 3—**Hypothetical tasks, schedule, and budget for the formation of a new-generation cooperative.**

Tasks	Month	Year	costs
			<i>Dollar</i>
Original idea formation & discussion	October	95	0-500
Forming steering committee & raising money for feasibility	N-D-J	96	500-2,000
Selecting feasibility consultant	Feb-Mar	96	200-400
Feasibility study	M-A-M	96	25-120,000
Selection of legal & accounting consultants	M-J	96	400-600
Business plan. & incorp.	June-Ott	96	80-300,000 <sup>a</sup>
Preliminary engineering & offering circ.	Nov-Dee	96	50-1 00,000
Equity drive	Jan-March	97	25-45,000 <sup>b</sup>
Launching	April-June	97	90-1 20,000 <sup>c</sup>
Ground breaking	July	97	Operating
Total			\$271,000/\$688,500

<sup>a</sup> Much of the difference of these numbers can be attributed to the cost incurred by hiring staff versus using consultants. Typically, 60percent is accounting and 40percent legal.

<sup>b</sup> Staff, director, room, printing, phone

<sup>c</sup> Staffing/site, selection/permit

spent. Some tasks, such as developing marketing alliances, can involve unpredictable and hard-to-control travel and staff costs.

Another important factor in scheduling and budgeting is the geographic area to be served. The larger the area and more complex the offering, the greater the time and budget considerations.

The Dakota Pasta Growers Cooperative started as a discussion on Aug. 9, 1990. Ground breaking at Carrington occurred on July 9, 1992. The 2-year process took place mostly in North Dakota and probably cost less than \$500,000. Northern Plains Premium Beef (NPPB) started as a serious discussion in April 1993. It completed the first (and unsuccessful) equity drive by June 1, 1997. The 4-year process chewed up more than \$1.3 million in development funds. NPPB sold equity shares in six States and two Canadian provinces and was forced to reschedule 12 of 17 organizational meetings because of blizzards.

If new technology is proposed, additional costs will be incurred. NPPB proposed using New Zealand-based technology, bore the cost of hiring both New

Zealand and American-based engineering firms, and paid travel costs to New Zealand to observe additional plants.

Alliances are difficult to negotiate and conclude in time to include the detail in the offering circular. Publication deadlines for the offering circular put pressure on a relationship-building function. Attorneys are not always available to prepare documents for both sides and corporations and partnerships often have difficulty scheduling meetings that a majority of directors can attend.

Alliances can be important, however, and must always be considered. Golden Growers raised more than \$50 million in equity from corn growers, in part because of the involvement of American Crystal Sugar in the Pro-Gold limited liability company.

Both cooperatives had overlapping production territories and knew each other well. NPPB and Dakota Growers Pasta Cooperative could not identify an alliance partner before their equity drives. One was successful and the other was not. A qualified CEO



and/or experienced marketing director can sometimes generate investor confidence similar to an alliance partner.

Finally, it appears that marketing and processing alliances can be extremely beneficial to the new cooperative. But without the commitment of the cooperative to go it alone without a partner, alliances are nearly impossible to achieve. No existing company wants to have its name used as a lever to gain investment in another potential competitor. Once your equity is in the bank and the product is committed, alliances come easier.

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## The Organizational Philosophy

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Much of the process of new wave cooperative development has already been discussed. Left to be uncovered in the dynamics were those unseen, yet real, influences that motivate behaviors and affect outcomes.

The progressive movement in North Dakota was a reaction to perceptions of negative treatment. A review of the history of North Dakota (Junker) gives an excellent look at the Non-Partisan League (NPL) leaders. Robinson contends that three men, Arthur Townley, Fred Wood, and William Lemke, were the principals in forming this political force. Like Jack Dalrymple, Lemke went on to study at Yale. Robinson's colorful description of Lemke carries the tenor of the day:

*Lemke became an intense, bitter, tenacious fighter for the plain people against the hated interests; he was a natural extremist, in Edward C. Blackorby's phrase a "prairie rebel." His hard, tough appearance was unprepossessing; he had lost an eye in a boyhood accident. His face was rough, his big jaw determined, and his clothes rumpled. Versatile and emphatic in speech, the language of the threshing crews as well as that of the courtroom came naturally to him. He neither smoked nor drank. When the occasion demanded, he could drive himself unsparingly with a terrible concentration. He was brilliant, a good organizer, ambitious and aggressive, eager for power, a natural promoter and dreamer, an ultra nationalist, and an Anglophobe.*

The movement focused on a natural enemy, the corporation. Literature produced by the NPL consistently ridiculed the large corporate interests as greedy, mean-spirited, and controlling organizations. The cor-

porate and big business gouging, as State Sen. Wenstrom recalled, was organizing powder for the cannons of the NPL.

While warfare-type confrontation tactics served the progressive movement well in the early 1900s, they became standard fare throughout agriculture through the 1980s and are still used in the 1990s. The central premise is that external forces are responsible for agriculture's miserable conditions. Favorite targets are Government programs or the lack of them, environmentalists, large corporations, or foreign competition. In recent years, Canadian imports and the North American Free Trade Agreement have been political whipping posts.

In his book, *Rules for Radicals*, Saul Alinsky provides a "Pragmatic Primer for Realistic Radicals." His tactics are worth quoting here to explain conventional organization theory.

1. Power is not only what you have, but what the enemy thinks you have.
2. Never go outside the experience of your people.
3. Wherever possible, go outside the experience of the enemy.
4. Make the enemy live up to its own book of rules.
5. Ridicule is man's most potent weapon.
6. A good tactic is one your people enjoy.
7. A tactic that drags on too long becomes a drag.
8. Keep the pressure on.
9. The threat is usually more terrifying than the thing itself.
10. The major premise for tactics is the development of operations that will maintain a constant pressure upon the opposition.
11. If you push a negative hard and deep enough it will break through to its counter side.
12. The price of a successful attack is a constructive alternative.
13. Pick the target, freeze it, personalize it, and polarize it.

Alinsky had great success organizing unions at the Chicago stockyards and at the Kodak plant in Rochester, N.Y. His book is well worth reading today as an explanation of human motivation during the quest for power by disenfranchised groups. Organizers certainly used some of these tactics to put together many of the 474 cooperatives that exist in North Dakota today. And many of the new generation cooperatives also employ similar tactics, perhaps without being aware of it.

## New Theory, New Tactics?

But there is a new philosophy that has crept into the mix of strategies. Perhaps new-generation cooperative organizers have used these tactics, but been unaware of it. The principles adopted by professional cooperative developers reflect some of this new theory.

This new organizational theory is not simple and has not been reduced to 13 tactics. It comes from the writings of M. Scott Peck in three of his books: *The World Waiting to be Born*, *The Different Drum*, and *The Road Less Traveled*; Stephen Covey's book, *the Seven Habits of Highly Effective People*; and Peter Senge's book, *The Fifth Discipline*. Bits and pieces can also be found in Guy Kawasaki's book, *Selling the Dream*, and Lee Egerstrom's book, *Make No Small Plans*. The September /October issue of the 1996 *Harvard Business Review* contains an excellent article by James Collins and Jerry Porras entitled "Building Your Company's Vision."

Most of these writers didn't set out to create organizational theory regarding cooperatives. In many cases, they were writing about other subjects. With the exception of Lee Egerstrom, they never once mention forming cooperatives. It is at great risk of oversimplification and distortion of their major points that I apply them to cooperative development and "Co-op Fever" in the Northern Plains. Understanding that risk, here are some tenets:

1. A community of interest (central business proposition) can be found that is not based on an external enemy, but on an economic opportunity. This community of interest can be so powerful as to engender sacrifice, commitment, and loyalty to the business cooperative, and help it survive.
2. The only fear needed in organizational efforts is the fear of missing the opportunity to invest.
3. The character of leadership counts greatly in evaluating potential for successful cooperative development and equity commitments. The organizing board must consist of individuals who are also trusted by colleagues.
4. Competitors are not enemies and need not be defeated. Alliances are possible with competitors.
5. Customers are natural allies and worthy of products that are safe, wholesome, and fairly priced.
6. Government is neither an enemy nor a friend, but a tool in the conduct of business that is necessary to ensure fair play. It is not responsible for "saving us."
7. Personal honesty, objectivity, and decency need not be sacrificed or compromised in the formation of a

new cooperative or selling equity shares. Nor should personal irresponsibility be excused on the basis of the greater good.

8. People are capable of understanding and making long-term commitments and accepting delayed returns on investments.
9. People make investments for more than economic reasons—they want to be part of a cause.
10. The call to action must be in bold enough terms to "stir mens' souls." Incremental or modest changes often fail to provide sufficient motivation.
11. The goal line or the definition of success must be painted in bold lines and commonly accepted by the project sponsors.
12. Evangelism is required for cooperation to occur, and while based on emotions, it is never anti-intellectual. It requires objectivity, enthusiasm, and emotion balanced with wisdom.

These new principles are not naive, simple-minded, or innocent. They require considerable understanding of market realities, tactics by competitors, and a general acceptance of the fact that people are not always good.

But these principles recognize that in spite of the considerable imperfections common to humankind, cooperatives still provide an opportunity to have faith in like-minded people. This faith is an essential element in cooperation and adds considerable business strength and efficiency to the organization. It is the ultimate corporate culture.

## Spirituality?

So important is this notion of faith or spirituality to cooperative organizers that an expert was asked during a tour of cooperative business to provide a lecture on the subject. Frederick Kirschenmann is an organic farmer in North Dakota who also holds a Ph.D. in historical theology from the University of Chicago.

Kirschenmann knows and explains what Kawasaki teaches about businesses. There must be a cause greater than the individual and without this greater good, organizers of new cooperatives will never overcome the layers of cynicism that pervade modern thinking. According to Kirschenmann:

*It is, in fact, the recognition of this spiritual dimension in business that may be one of the greatest contributions that cooperatives can make to our society. The absence of spirituality in much of our business and social lives has left us lonely, isolated, and cynical. Apart from the spiritual*

*discipline that leads to cooperation, we are largely isolated and alone. In the business world, it is all up to the individual.*

Role models are individuals who have succeeded in rising above their colleagues. Business and airline magazines all feature the successful “tycoon.” Seldom do we find stories of successful communities that worked together to solve a problem or successful coalitions that acquired healthy bottom lines by cooperating rather than competing. Rampant individualism seems to prevail despite the fact that it has left us feeling isolated, stressed, and overburdened, and despite the fact that there are hundreds of case studies which demonstrated that cooperation works.

## Truth?

In cooperative development, telling the truth requires a discipline uncommon to political or social organizational efforts. Truth telling requires understanding reality and avoiding exaggerations. It is not only humbling but also empowering. It is one of the defining characteristics of a successful equity drive. If the truth or reality of the business analysis is ever compromised by management or directors, it is almost impossible to restore credibility to the organization.

The temptation to exaggerate returns and market opportunity or to understate risk is great. It is easy for management and boards to view the equity drive as sales. Putting a favorable spin on media presentations can lead to sugar-coating the equity drive presentation. Organizers commonly feel they must have an answer for every possible question, or have worked out every detail.

A simple rule of telling the truth to the media and to investors can be difficult to live by, let alone enforce. Violation of this rule occurs when either management or directors lack confidence in their proposed business plan and attempt to modify the message to what they think will sell.

This dedication to spirituality and truth-telling can be contagious. It is often an act of courage that results in others acting courageous. In an age of political correctness, it can have startling impacts on audiences. However, the temptation to personify the competitors, the Government, environmentalists or some other group or organization as the enemy is very great. Simply telling the truth is extremely difficult.

My personal dedication to understanding the competition and appreciating their strengths is often seen as a weakness by those who wish to vilify them. Many agricultural producers are bitter and seek to

strike out at processors. They often want the cooperative developer to reflect that bitterness and strike a blow against the multinational companies they blame for poor prices. I believe that attacking multi-national corporations wastes energy and is nonproductive. The rural developer’s role is to focus on the opportunity, not instigate class warfare or throw lances at dragons.

Much of this focus on the opportunity is described by the author Peter Senge in his book *The Fifth Discipline*. In chapter 11, “Shared Vision,” he describes the power of a commonly held view of an economic opportunity. Reading the entire chapter will provide a better understanding of this concept as it is applied to cooperative development.

Gary Williamson, who manages Central Power Cooperative in Minot, N.D., called me “the preacher.” In my mind it means spreading the good news that producers, working together through cooperation, can increase their net farm income and create a better rural life for others. Kawasaki called such techniques, “everyday evangelism.”

It’s not so much that old techniques don’t work, as it is a different set of circumstances and players. This new day may call for different cooperative development techniques to create success. It is easy to over-intellectualize the process of cooperative formation. The role these techniques play in creating cooperative revival may be over-determined. As practitioners of cooperative development, we are just players in the drama and not the cause.

As a player, you can influence the outcome, but you didn’t create the game.

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